MONTGOMERY WARD   CONTAINER CORPORATION OF AMERICA   1971 ANNUAL REPORT

MARCOR

BUSINESS INF. BUR.
CORPORATION FILE

FINANCIAL HIGHLIGHTS of Fiscal Years Ended January 31, 1972 and 1971

	1971	1970
Net Sales	$2,998,577,000	$2,804,856,000
Net Earnings	$ 57,512,000	$ 59,637,000
Earnings Per Common Share	1.64	1.77
Earnings Per Common Share Assuming Full Dilution	1.42	1.50
Dividends Paid Per Common Share	$ .80	$ .72½
Stockholders' Equity	$ 920,688,000	$ 896,015,000
Book Value per Common Share	$ 23.38	$ 23.00
Shares Outstanding:		
Preferred	6,159,323	6,466,452
Common	27,399,003	26,161,154

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PRESIDENT'S LETTER TO MARCOR STOCKHOLDERS

Net earnings for Marcor were $57,512,000 compared with $59,637,000 in fiscal 1970, a decline of 3.6%. On a fully diluted basis, net earnings per common share were $1.42 compared with $1.50 last year. Of the principal subsidiaries, Montgomery Ward operating earnings were up 10.1% and Container Corporation of America operating earnings were off 19.9%.

For the fourth consecutive year, Marcor's sales set new records totaling $2,998,577,000, an increase of 6.9% over fiscal 1970 sales of $2,804,856,000. Both principal subsidiaries, Montgomery Ward and Container Corporation, also reported record sales.

Common stock dividends paid to Marcor stockholders totaled 80¢ per share in 1971 compared with 72½¢ in 1970 and 50¢ in 1969.

Our capital investments for expansion and modernization totaled $173 million compared with $160 million last year. Of the total, Montgomery Ward used $97.8 million for its continuing new store and systems expansion programs and Container Corporation used $64.1 million for construction of new plants and expansion of capacity in existing plants. For fiscal 1972, capital expenditures are planned to approximate $163 million.

Detailed discussion of the operating results for 1971 and plans for 1972 of Montgomery Ward and Container Corporation and Marcor financial statements are presented in the following pages.

The economic climate in 1971 improved over that of 1970, although at a rate slower than anticipated, particularly in the last half. The impact of government controls following directly on costly labor settlements, adversely affected our results.

Ward's progress in strengthening its modern chain of large retail stores in metropolitan areas continues to improve its competitiveness in its major markets and accounted for half of its sales increase. The improvement in its earnings was attained despite substantially increased labor and service costs that could not be fully recovered under Phase I and II governmental price restrictions.

Wards expects to benefit from the gradual increase in consumer spending throughout the economy, the maturing of its large stores in major metropolitan areas, a substantial tightening of its administrative costs and the increased sales being attracted by its 100th anniversary promotional programs. We expect the momentum of improved sales and profits will continue.

In common with other members of the paperboard and packaging industry, profits of Container Corporation were adversely affected by a serious pricing problem in the industry. They were depressed further by a strike affecting 18 plants and by unforeseeable delays that substantially increased the cost of getting the $86 million mill expansion at Fernandina Beach, Florida, into full production.

The mill at Fernandina Beach currently is operating near capacity and some price relief has been granted by the federal Price Commission. These factors, combined with a strong demand for the company's products, make the outlook for improved profits at Container Corporation bright.

Marcor Housing Systems, Inc., a new subsidiary formed in 1970, is making excellent progress in the manufacturing, construction and rental of apartments in Denver. The utility core unit and the prestressed concrete floors, walls and roofs are manufactured and erected by wholly-owned subsidiaries.

Disposable personal income continues to rise and consumer attitudes and buying intentions indicate that consumer spending will at least keep pace with personal income. The rising trend in housing completions will provide further strong support to sales of home appliances and other household furnishings. These factors are favorable to both our retail and packaging businesses.

The objective of Marcor management is to improve profit ratios and margins on our present operations during the next few years in anticipation of further expansion at the higher ratios during the last half of the 70's. In 1972, we expect Marcor's growth rate to accelerate in both sales and earnings.

We are honored by the appointment of Robert S. Ingersoll as Ambassador to Japan and regret that he will not stand for re-election to the Board of Directors on May 23. His services as a long time director of Container Corporation and of Marcor since its formation, have been invaluable.

Management has become increasingly involved in business-government-community partnerships to improve environmental, economic and social conditions of our nation through participation in specific programs to assist in the financing and management of federal, state and local projects.

We believe it is our corporate purpose and responsibility to produce social as well as economic dividends as we seek to improve products, services and the quality of life of the people of our country.

April 17, 1972

Leo H. Schoenhofen

Leo H. Schoenhofen, President
and Chief Executive Officer

Executive management of Marcor is provided by (from left) Leo H. Schoenhofen, Marcor's president and chief executive officer; Gordon R. Worley, vice president—finance for Marcor and Montgomery Ward; Henry G. Van der Eb, president and chief executive officer, Container Corporation of America; Edward S. Donnell, president and chief executive officer, Montgomery Ward.

Photo by Karsh

"We rededicate ourselves to placing consumers first—with values to reward their sense of thrift, with shared confidence in the quality of everything they buy"

Edward S. Donnell
President and Chief
Executive Officer

Montgomery Ward sales for its 52-week 1971 fiscal year were $2,376,993,000, a 6.7% increase over 1970's 53-week year. Net operating earnings were $43,012,000, a 10.1% increase over 1970 and our second best year since 1952.

Quarter-by-quarter, our total sales were up 8.7% in the first quarter, 7.2% in the second, 7.9% in the third, and 4% in the fourth (13 weeks compared with 14 weeks in 1970—on a comparable 13-week basis, they were up 10.6%).

Catalog sales were weak in the first quarter, but strengthened during the balance of the year as a result of increased circulation of promotional catalogs.

Our catalog earnings fell short of objectives because we moved and computerized our Fashion House reordering activity from Chicago to New York early in the year.

In 1971, Wards capital expenditures were $97,770,000, largest in the history of the Company, for new retail store construction, new catalog facilities and systems expansion. In 1972 we will invest approximately $86,000,000 for store construction and expansion and computer systems.

In 1971 we completed our administrative center program by opening units in Portland, Oregon; Denver, Colorado; and Albany, New York. We now have 11 of these centers handling credit and accounting. In time, all will handle retail merchandising.

We are now devoting the bulk of our computerization research and development to retail merchandising. In the long run, we believe this will contribute more to reduction of inventories, increased turnover and improved profits than any other effort.

During the year we formed a National Food Services Division and opened two additional Royal Chef cafeterias in Kalamazoo, Michigan and Pensacola, Florida. In addition, we made our first acquisition in this field by acquiring the Putsch Corporations of Kansas City, Missouri, a quality chain of cafeterias.

In addition, we benefited from the first full year's performance of Commercial Trades Institute of Chicago, a leader in the field of vocational school education. CTI had an excellent year in both sales and profits. Although small, it has much promise of future growth.

During the latter months of 1971 we instituted an economy program in all administrative units that will contribute to 1972 profits.

We are optimistic about 1972. The first quarter will be difficult as we are absorbing the wage and benefit increases granted in the fourth quarter of 1971, and we will not receive any benefit from modest selling price adjustments permitted under Phase II until the end of the quarter.

The favorable economic forecast for the 1970's means a decade of growth and opportunity for alert merchandisers.

There are 80 million people employed today. In 1980 there will be 98 million, an increase of 23%. The GNP per worker will increase from $12,500 in 1970 to $22,500 in 1990 in terms of 1971 prices. Family income will rise from $8,000 to $12,000 in the decade, a 50% increase with the greatest growth in the over $15,000 class.

Consumer spending will increase from $3,000 to $4,500 per capita by 1980, a 50% increase. In 1970, 18% of per capita consumer spending was for food. It will be 15% by 1980, which means more discretionary income will be available for other consumer needs.

For 1972, we are looking for a GNP of $1,143 billion, a 9.1% advance; an after-tax income rise of 8.3%; a savings rate of 7.6% compared with 8.1% last year; a consumer buying attitude index that should rise from the present low 80's to 90 by mid-year; unemployment gradually reducing to 5.6% by the fourth quarter; and an 8.6% increase in sales of Ward-type merchandise.

Internally, we will benefit by our improved markup from the second quarter on, from our new TV spot program which is being used to highlight select 100th anniversary values, an anticipated return to normalcy in the Midwest, improved catalog fashion sales and better controls in our credit division.

As a mass merchandiser of quality goods, Wards serves a broad market of consumers who are better educated, more individualistic and inquisitive than previous generations. To meet their demands, we are committing greater efforts to achieve our 100-year-credo of Satisfaction Guaranteed.

These efforts include:
• Continuing to provide quality merchandise and to be first with new merchandise.
• Expansion of in-store boutiques to attract customers who want related merchandise to be displayed and sold in one place.
• Strengthening of each store's merchandising efforts to achieve planned sales and profit volume.
• Improving customer service at the point of sale by providing well-trained sales people; having factual and informative packaging and signing; making credit statements accurate by properly reflecting all charges and credits; providing clear, concise warranties and guarantees on all merchandise.
• Further strengthening of all levels of management.

We think the combination of an improved economy, along with improved operating techniques, will make 1972 more than just a historic anniversary year for our Company. It should be a record year in sales with another substantial increase in profits.

Montgomery Ward's management team (clockwise from left): Harold Dysart, executive vice president; Gordon Worley, vice president; Edward S. Donnell, president; James Lutz, executive vice president; Sidney A. McKnight, executive vice president; and Fred Veach, vice president.

Montgomery Ward receives tribute for its century of service to consumers . . .

1872-1972

THE WHITE HOUSE
WASHINGTON

March 22, 1972

Dear Mr. Donnell:

At a time when our country was first realizing its great industrial and commercial potential, mail order retailing meant that the wares of the city could be shared by our farmers, ranchers and other rural citizens who otherwise could have been left out.

Over the years the mail order business has become an American tradition. It is a tribute to the vision and pioneering initiative of Aaron Montgomery Ward that we acknowledge today the significance in the life of our country of one hundred years of mail order retailing.

I know that I am joined by grateful men and women everywhere in memorializing Mr. Ward's achievements and in saluting the continuing growth of the industry he founded.

Sincerely,

Mr. Edward S. Donnell
President and Chief Executive Officer
Montgomery Ward
619 West Chicago Avenue
Chicago, Illinois 60607

100 YEARS–A TRIBUTE

The centennial anniversary of the Company and the mail order industry, which were both founded by Aaron Montgomery Ward, has merited numerous citations and tributes from national, state and local leaders.

President Richard M. Nixon saluted the company on its anniversary and, in a unique tribute, the U. S. Postal Service announced it will issue a commemorative postage stamp during 1972 honoring mail order's 100th year of service to American consumers.

The industry's influence on American lifestyles has been profound during the past century as the prestigious Grolier Club of New York pointed out in naming the mail order catalog one of the most significant books in American history. The Grolier Club stated:

"No idea ever mushroomed so far from so small a beginning, or had so profound an influence on the economics of a continent, as the concept, original to America, of selling by mail, for cash. Aaron Montgomery Ward conceived the idea in 1869, was wiped out by the Chicago fire, but started Montgomery Ward & Co.

"The mail order catalog has been perhaps the greatest single influence in increasing the standard of American middle class living.

"It brought the benefit of wholesale prices to the city and to the hamlet, to the crossroads and to the prairie; it inculcated cash payments as against crippling credit; it urged millions of housewives to bring into their homes and place on their backs and on their shelves creature comforts which otherwise they could never have hoped for; and above all, it substituted sound quality for shoddy. As a final bow, the mail order catalog was, in many homes, the only illustrated book."

In 1972, as Montgomery Ward and the mail order industry enter their second century of service, tributes are being received from many branches of federal, state and municipal governments; from educators and the professional communities; and from businessmen and national civic leaders.

National recognition is being given to the hundredth anniversary of the founding of the mail order industry by Aaron Montgomery Ward with issuance of a commemorative stamp by the U. S. Postal Service. Postmaster General E. T. Klassen makes the announcement to Montgomery Ward president, Edward S. Donnell.

100 YEARS–RETAIL

Ward's retailing operations originated in 1926 with the opening of catalog store "merchandise exhibits" at Marysville, Kansas, and Plymouth, Indiana. Sale of the "exhibit" merchandise by these stores triggered the establishment of the first retail stores.

By the end of 1929, Wards had opened 514 retail stores. This tremendous expansion in establishing a network of retail stores suffered a severe blow when the stock market crashed. As the nation gradually recovered from the shock of the national economic breakdown, Wards resumed its program of retail store expansion in small towns and medium size cities. By the end of 1939, Ward's 618 retail stores helped the Company to establish a sales record of $474,882,000.

Then came World War II and 15 years of labor, government and business problems, which culminated in a major proxy battle that presaged a new management policy for the Company.

In 1961, Robert E. Brooker undertook the task of revitalizing the Company as a viable national retailer. His new management team closed 300 old "green awning" stores in small, rural communities and replaced many of them with large, new stores in 22 metropolitan markets throughout the country.

Today, Wards is an expanding urban retail chain with 266 modern stores. Store size has increased dramatically, and the larger stores are located in regional shopping centers.

In 1958 only one of five of the new stores opened were in centers compared with 15 of 22 in 1971 and a planned 19 of 20 in 1972.

The "outlandish" merchandising idea set in motion 100 years ago by an imaginative young salesman in Chicago has resulted in a nationwide merchandising chain with retail store sales of $1,724,000,000 and catalog sales of $622,000,000; 100,000 employees; more than 2,100 retail and catalog stores and catalog sales agencies.

Typical early retail stores, such as this downtown store (right) opened in Birmingham, Alabama in 1928, were characterized by three floors and a fashion mezzanine. Today's modern suburban stores have one or two levels with spacious parking, such as this new Denver store which was opened in 1971.

"We have restructured and revitalized our merchandising operations. We cannot approach tomorrow's problems with yesterday's skills"

James Lutz
Executive Vice President
Merchandising

Ward's merchandising strategies have undergone dramatic changes during the past several years led by an energetic, experienced team of men and women in retail and catalog operations, merchandise development, procurement and customer services.

New emphasis has been placed upon the quality, fashion, design and value of the Company's merchandise in order to increase customer interest and demand for Ward's products.

To achieve manufacturing economies and improved quality control, and to assure availability of merchandise when needed, buying departments have established known-cost, long-term contracts with a smaller number of suppliers.

Extensive customer research helps buyers determine the types and characteristics of product lines to be offered. The Company's manufacturing and engineering staffs also help develop methods to manufacture products economically. Ward's quality control technicians monitor product quality and provide incentives for those who maintain top Ward standards.

Ninety-five per cent of Ward's merchandise is manufactured to its own specifications and marketed under its own brand names.

In 1971, new and colorful packaging and labeling was adopted to provide a fresh and interesting new look to merchandise lines.

To continue improvements in catalog operations, Wards completed its program of installing in its 10 catalog warehouses an automated order processing system which allows a customer's order to progress from placement to the order filler at the warehouse without being touched by an employee. This means faster, error-free service for customers.

Another new phase of catalog mechanization will begin in 1972 with installation of a new material handling system in the Chicago warehouse. Increased customer orders have prompted the Com-

Ward's merchandising activities are directed by Executive Vice President James Lutz (foreground) who is aided by (from left) vice presidents John Marchese, merchandise procurement; S. W. Allred, catalog merchandising; Curt Ward, retail merchandising; Richard Abbott, fashions; C. A. Eckman, catalog operations.

Fashion buying is coordinated by assistant vice president Rita Perna, right, Ward's first woman officer, who is responsible for supplying Ward stores with trend-setting apparel in fashionable colors, styles and fabrics.

pany to automate the handling of merchandise in catalog warehouses with systems similar to those in several metro district warehouses.

To improve profitability of catalog sales, Wards in 1971 adopted a new profit planning system which uses computers to evaluate sales. This means changes can be made in upcoming catalogs using current sales data to offer customers what they want, thereby increasing turnover of fast-selling merchandise.

1971 was a year of intense planning for Ward's entire merchandising organization—planning for the longest and biggest anniversary celebration ever staged by any major retailing organization. The objective: Make Ward's 1972 celebration one of the most visible merchandise promotions in history.

American consumers first learned about the Company's 100th anniversary and the special merchandise offers early in January through one of the largest national advertising promotions ever undertaken by Wards. For its centennial year, Wards developed an entirely new look for its newspaper ads and for its catalogs.

To promote enthusiasm, provide information and improve communications between the home office and the field retailing organization, Ward store managers attended meetings held throughout the country during the fourth quarter to preview new products, ads, packaging and point-of-purchase displays to be used during 1972.

NEW IN '72!

Many new products, like the ones on these two pages, have been developed for introduction to customers during Ward's centennial year. They reflect current consumer interest in convenience, safety, ecology and nostalgia.

On this page are an eight-track stereo tape deck which holds up to eight tapes for continuous playing and a limited edition of an early American-styled rocking chair that is hand stencilled. Each chair bears a small brass plaque with its individual number.

Also, Ward's unique video recorder-cartridge television is a complete home entertainment center which will be available in Ward's stores in June.

On the opposite page, clockwise from left, is the safest, new lawnmower on the market, an electronic air cleaner and air conditioner, paint that looks like textured wall paper, a 17-inch drill press with solid state circuitry, an electric home welder, a range with hidden heating elements and a reproduction of a full line of 18th century Sandwich glass.


THIS IS
Mood
THE PAINT
THAT ACCENTS
LIKE WALLPAPER
Mood Finish


HOME SHOP WELDER

"Wards has grown from a confederation of small stores in rural markets to a nationwide chain of large stores in metropolitan markets"

Sidney A. McKnight
Executive Vice President
Field Operations

Modernization of the Company's nationwide retail system has centered mainly on the opening of large, new stores in expanding population centers across the country. Of the 266 new stores opened since 1958, 119 of them are located in major shopping centers.

New stores continue to be the solid base for Ward's sales and profits. Stores opened since 1958 accounted for the major portion of 1971 retail sales and earnings. In 1971, Wards opened 1.8 million square feet of retail selling space. Total retail store selling space is now 22.7 million square feet.

Wards opened 22 stores in 1971, of which seven were relocations of older stores, and 11 were in the metro district clusters. Eight were modular self-service stores. The Company is pleased with the results of its modular stores with 65,000 square feet of net selling area. The early returns on the large units with 135,000 square feet of net selling area look promising.

The average size of stores opened in 1971 was 82,000 square feet of selling area compared with 60,000 square feet in 1970. Thirteen of the stores had over 80,000 square feet, six between 50,000 and 80,000 square feet and only three were under 50,000 square feet.

Vice presidents who manage all store and catalog operations are (left to right) Robert Elliott, Wayne Matschullat, Executive Vice President Sidney A. McKnight, Robert Harrell, Martin Munger and Charles Wagner.

Ward's expansion in the Southeast in 1971 included construction of the first store (right, foreground) in the fast-growing Pensacola, Florida market.

Fifteen of the 22 stores were established in regional centers and only two were freestanding.

At the end of 1971 Wards was doing business in 465 retail stores compared with 462 a year ago. This is the first time in over 20 years that the Company had a net gain of stores in a fiscal year. Several years ago Wards undertook a major restructuring program, which each year resulted in closing more stores than it opened.

In the next 10 years, Wards present metro district network will continue to grow and reach out into many market areas. This year a new metro district was formed in the Norfolk, Virginia area.

In a move to improve its competitive position nationally, the Company has established its fifth operating region in the Southeast. The new region, with headquarters in Orlando, Florida, consists of nine states. It has 34 retail, 21 catalog and 60 sales agency stores.

During the past several years the influx of business and industry into the Southeast has made it one of the fastest growing areas of the country with after-tax income increasing more than 90% in the past 10 years. By organizing the area into an operating unit complete with its own management team, Wards can maximize its sales and profits in the Southeast.

The 1972 program calls for 20 new stores, of which 19 will be in regional centers. Eight of these will be in metro districts. Two will be modular self-service stores.

Net total space to be added in 1972 will be approximately 1.2 million square feet of selling, a 5.3% net increase in total selling space. This gives the Company a total of 23.9 million square feet. The average size store in 1972 will be 78,000 square feet of selling area, which represents 65% of total gross area.

The 1972 catalog program will be similar to 1971, placing emphasis on tire, battery, auto accessory units and agencies.

Wards will increase its capital expenditures for material handling equipment which will improve productivity in the catalog houses.

Montgomery Ward is changing the nature of its retail operation by becoming a chain of large stores.

In 1971 stores with annual sales over $10 million accounted for 25% of total retail sales. Since 1963, Wards has tripled the number of stores with annual sales of over $10 million. During the same period of time the number of stores with less than $5 million in annual sales declined by 27%, and in 1971 produced 36% of total retail store sales compared with 54% in 1963.

These developments in retail and catalog operations are a continuation of a rebuilding plan that began 14 years ago.

"The support services and mechanization so vital to a profitable retail operation have undergone dramatic changes"

Harold F. Dysart
Executive Vice President
Operations

The great demand by customers for more services is being met by Wards in many ways. But the dramatic gain in the merchandising of service has been the growth of the Company's appliance service contract business. During 1971, service contract sales exceeded $27 million, a 15.5% increase over comparable 1970.

Wards offers two basic appliance service contracts: one covering a specific product, the other providing blanket service for 58 different Ward appliances. To service these contracts Wards has constructed 25 metropolitan service centers. In addition, more than 400 service units provide service in non-metropolitan areas.

The Company's service technicians undergo continuous specialized training. In 1971, this repair force spent 18,400 man-hours in training sessions in the three mobile training centers manned by professional instructors who offer courses in new repair techniques for new products.

The Company further emphasizes training with the use of permanent training facilities in each of its five operating regions for specialized instruction in electronics, refrigeration and other specialized fields.

The significance of this increased emphasis on training was revealed in a survey of 33,500 Ward customers last year which showed a substantial increase in the number of satisfied consumers and a corresponding decrease in complaints.

Wards made significant progress in 1971 in increasing available space for parts needed in the repair of today's sophisticated merchandise. The Company added 100,000 square feet to its National Parts Center in Berkeley, Illinois. This Center ships parts to Ward facilities throughout the nation.

New computer systems were introduced in retail merchandising during 1971. In its LaSalle-Peru, Illinois, store Wards installed the first group of new electronic point-of-sale "data terminals."

These replace the conventional cash registers with terminals equipped with optical scanners which electronically record all information about each purchase. This allows faster, more efficient customer service. Installations in 1972 are planned for 35 stores in the Houston, Denver and Norfolk areas. A total of 150 stores will be equipped by the end of 1974.

A mechanized credit authorization system was installed last year in 98 retail stores serving eight metropolitan areas. Keyboard terminals located in each department in a store are used to check every credit purchase. After the sales clerk enters required information about a purchase, the system responds with instructions to the clerk on how to proceed with the sale. This provides almost instantaneous approval and on-the-spot discovery of stolen or lost charge plates.

One of the major challenges in delivery of merchandise this past year was the problem of overcoming the effect of sizeable freight rate increases. Substantial offsets were achieved through increased consolidation of goods ready for shipment, use of larger delivery trucks and tightening of schedules.

In 1971, a new warehouse was opened in Norfolk, construction was started for a similar unit in Portland, and an enlarged replacement facility was built in Denver. A new warehouse for Los Angeles and expansion of the Houston facility are scheduled for 1972.

An automated material handling system was installed in 1971 in the Franklin Park, Illinois, warehouse which serves the Chicago area.

Operational systems and controls are the responsibility of Executive Vice President Harold Dysart (right) and (from left) vice presidents Herman Nater, distribution; Dean Lewis, customer service, William Harbeck, corporate facilities. Scene is in Ward's National Parts Center near Chicago.

An optical scanner (below) which electronically records all details of sales transactions is part of a new cash register system that will be installed in 150 Ward stores by 1974.

Centralized cashier services (left) provide extra convenience for customers in Ward's new modular self-service stores.

Ward's delivery trucks (below) coordinate delivery schedules with jet cargo planes to expedite shipments of appliance parts to stores and customers in 48 hours.

"We are changing policies and procedures to improve working relationships with our people as they seek greater personal satisfaction in their careers"

Fred Veach
Vice President
Organization Administration

Ward's increased appeal to the public in the past several years has been paced by expanded internal training and recruiting programs and by improvements in compensation and benefit programs.

In 1971, 231 new management trainees completed a comprehensive program involving 11 phases of retail store operations including receiving, marking, customer relations and credit. The course operates on a modified self-teaching principle with built-in feedback from store personnel.

The Company has formalized its recruiting program to attract 1,000 recruits annually for the next several years, 85% of them from college campuses.

In 1971, Wards liberalized its Company-wide benefits programs, group life and health care insurance, retirement plan, vacation policy and disability coverage. Management salary ranges have been increased to remain competitive both within and outside of the retail industry.

These incentives combined with increasing opportunities for job promotions are creating a new interest in Montgomery Ward as a progressive employer.

Also in 1971, Wards expanded its National Merit Scholarship Program and the Montgomery Ward Foundation's matching gifts to colleges to include participation by eligible employees of its subsidiary companies. Currently 38 children of Ward employees have National Merit Scholarships and matching gifts were distributed to 71 colleges and universities.

In its role as a corporate citizen, Wards has responded to local, state and national appeals for financial assistance as well as loaned executive talents.

In addition, the Company has taken leadership roles in minority business development programs, United Fund Campaigns and a variety of employment, training and community improvement projects.

The Company is training and hiring "unemployable" young adults and is continuing a program begun in 1969 which extends credit to welfare recipients. In one major city, the company joined with welfare officials in conducting clinics that teach cooking, nutrition, sewing, shopping, appearance and poise to young welfare mothers.

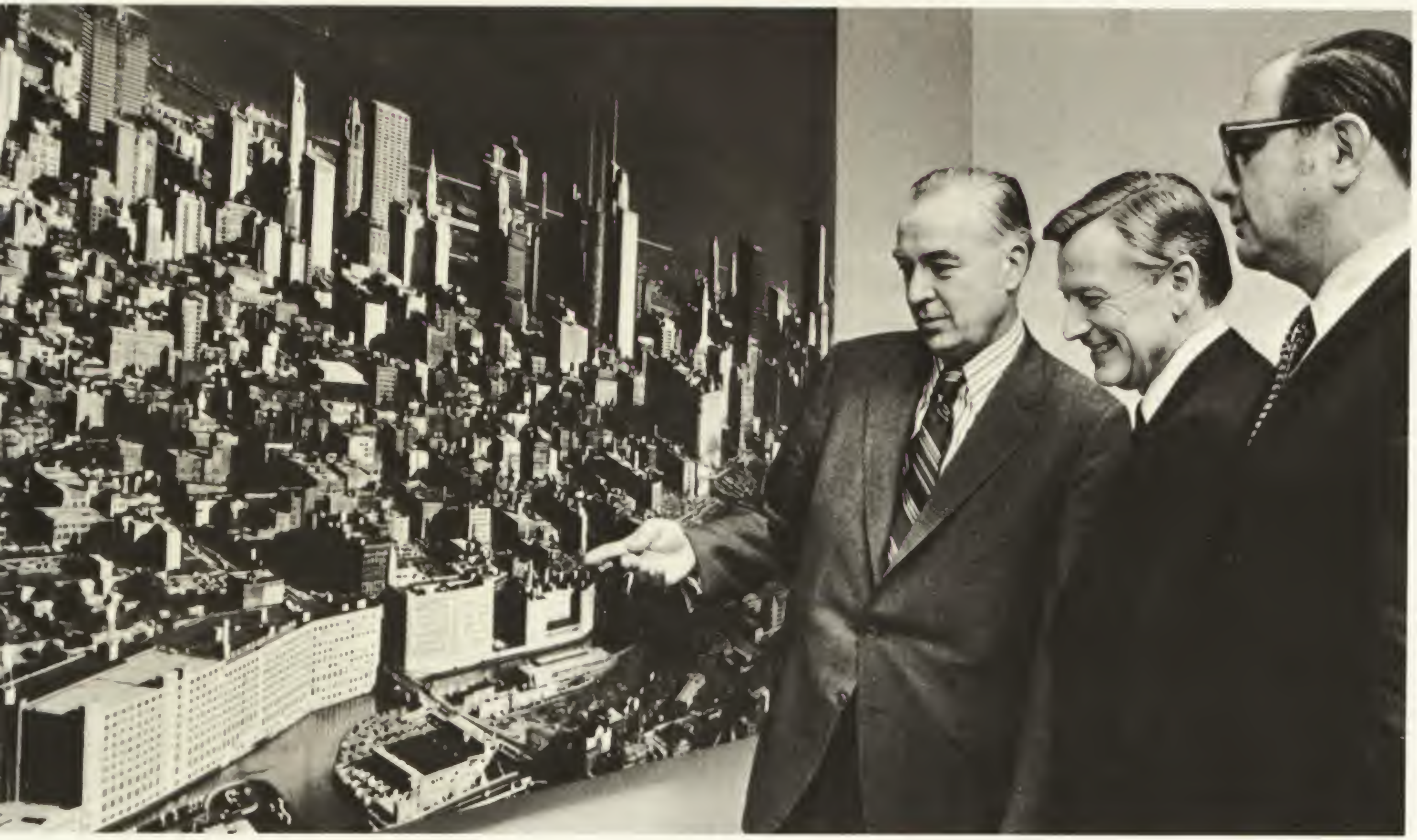
More than 100 employees at the corporate office in Chicago serve as volunteer tutors for children who live in nearby public housing.

This summer, Wards will co-sponsor with its largest foreign manufacturers an International Student Exchange Tour administered by the highly regarded "Experiment in International Living." This eight-week program is

Wards produced sports films, featuring baseball's Stan Musial (top), golf's Julius Boros, football's George Allen and others for free showings to youth groups.

One hundred Ward employees in Chicago volunteer time each week to tutor children living in neighborhood public housing project.

The Aaron Montgomery Ward "environmental library" was established in 1971 and Chicago's Mayor Daley acknowledged the gift as "a fitting memorial to the man who alone saved Grant Park for future generations."



an example of Ward's participation in education for youth.

In 1971, the Montgomery Ward Foundation and the Company provided financial aid to charitable, cultural, health, youth and educational endeavors of approximately $1,300,000. The Company continued its support of 542 independent colleges and universities with contributions to 40 state and regional associations.

In connection with the construction of Wards new corporate headquarters building, a land-mark employment opportunities agreement was jointly signed in 1971 by Wards, the project general contractor, and a neighborhood citizens' organization. It provides that job opportunities on the project will be given first to minority residents of the immediate community.

Ward's minority employment and promotion programs achieved further gains in 1971. 12.3% of the Company's full-time employees are minority group members; 553 minority employees are in managerial and professional positions.

During 1971, President Nixon selected Robert E. Brooker, chairman of Marcor's executive committee, as chairman of the new National Business Council for Consumer Affairs. Under Mr. Brooker's leadership, the council is seeking ways to improve business-consumer relations.

Corporate relationships and responsibilities are the primary interest of (from left) vice presidents Robert Guelich, public relations; Fred Veach, organization administration; and Richard Scheidt, labor relations.

"In legislation, regulation and litigation, just as in merchandising, our guiding principle must be to respond to the needs of the consumer as he sees them"

Peter T. Jones
Vice President
Legal and Government Affairs

1971 saw numerous new proposals for Federal and State legislation and regulations involving the merchandising, credit, tax and other aspects of the business.

These provided a unifying theme for sharply increased and better coordinated efforts by the Legal and Government Affairs, Credit, Tax and other Divisions of the Company. These Divisions, together with our Regional staffs and an expanded and upgraded Washington Office, now have an effective legislative and government affairs capability.

New legislative proposals often provide an opportunity for the Company to further fulfill its commitment to serve the consumer.

For example, in October, 1971 Edward S. Donnell was the first national retail chief executive to single out for special support the direct consumer-benefit features in President Nixon's omnibus tax bill, which called for an accelerated $50 per capita increase in tax exemptions for individual consumers.

In writing the Senate Finance Committee he stressed Ward's belief that consumers and retailers share common interests and that these consumer tax benefits would improve consumer confidence, stimulate demand and, thus, also serve the broadest public interest.

The Company also was one of the first national retailers to support the principle of a new federal Consumer Protection Agency, with the understanding that enabling legislation to create such an agency

Business relations with federal, state and local governments are handled by (from left) vice presidents Phillip Lifschultz, taxes; Peter Jones, legal and government affairs; and Ashley DeShazor, credit.

A new credit authorization system (right), installed in 1971, provides near instantaneous approval of credit purchases for all customers.

must be precise, workable and fair to all parties concerned.

In the area of consumer credit legislation, Ward's position consistently has been that what is in the best interest of our customers is in the best interest of Wards.

Consequently, Ward's policy has been to work for legislation which assures the free operation of a competitive system of credit granting, so as to provide maximum credit services to as many customers as possible at minimum cost.

Retail credit practices have come under attack because people fail to understand that most retailers do not make substantial profits on finance charges.

As detailed under Consumer Credit Operations on page 44 in the Financial Information Section, and reported on by Ward's independent public accountants, finance charge revenues in 1971 exceeded the total cost of supplying and advertising credit, including interest and federal income taxes, by $7.4 million. This represents earnings of less than 1% (approximately .64%) on credit sales, and less than 1% (approximately .71%) on Ward's average investment in customer receivables.

In 1970, service charge revenues exceeded credit and interest costs by $3.7 million, which is less than one-half of 1% (approximately .32%) of credit sales and less than one-half of 1% (approximately .36%) of the average investment in customer receivables.

Last year the Company utilized computers more extensively than ever before in an effort to hold down the cost of supplying credit.

The most dramatic governmental activity of 1971, of course, was the establishment of wage and price controls as part of President Nixon's New Economic Policy, Phase I and II, which involved virtually all aspects of the business.

In helping to develop suggestions for the Phase II guidelines, Ward's personnel worked with economists from various universities and with other experts as well. They all stressed the fact that the competitive, fragmented nature of the retailing industry would do more than anything else to inhibit price increases in today's period of cost-push inflation where scarcity is not a pervasive problem.

The accuracy of this analysis has been demonstrated by retailing's performance under Phase II. For example, in December 1971, and in January and February 1972, as compared with November 1971, government statistics showed that national retailers had substantially reduced their annual rate of price increase and were thus contributing significantly to the winding down of inflation.

In addition to helping fight inflation, retailing as an industry can continue to make its traditionally important contribution to the creation of new jobs and the reduction of unemployment.

Since retail stores are labor-intensive, the dollars invested in constructing new stores create a proportionately larger number of new jobs at all skill levels than many other investments. Many persons, in and out of government, feel that this fact should be given still greater official recognition today when unemployment is above acceptable levels.

In all phases of our business, Wards continues to work hard to achieve still greater productivity and efficiency through training and mechanization programs.

For example, because of the magnitude of tax computations and the thousands of changes made in tax laws annually, Wards has been mechanizing the computation of its tax transactions to assure accuracy and to reduce costs. In 1971 Wards completed computerization of its state income tax operations.

The Company also is working with the Internal Revenue Service in establishing its "Auditape" program to assist IRS computers in auditing Ward's computers for verification of information. This system is designed to reduce time and costs for both the Company and the Internal Revenue Service.

As Wards enters its 100th Anniversary year, it envisions a growing partnership of progress among consumers, government and business, with the satisfaction of the consumer as the common goal.

Wards co-sponsored with other retailers a well-documented film to explain the benefits of adoption of a Uniform Consumer Credit Code by all states.

NEW LOOK FOR WARDS

Construction of Ward's new 27-story headquarters office building began with a ground-breaking ceremony on April 29, 1971. It is part of the development by the Company of a multi-million dollar urban business complex in the heart of Chicago's inner-city.

The 600,000 square-foot structure, designed by world-famous architect Minouro Yamasaki, will be 375 feet high with an exterior of walnut Travertine marble and solar bronze glass. There will be 1½ acres of greenery between the marble-walled lobby and the street. The entire development will be landscaped, creating a park-like atmosphere.

The first of the new buildings scheduled in the area was a four-level, L-shaped parking garage for 800 cars which was completed in November of last year. Other multi-level parking facilities will eventually be added to provide employees with safe, convenient, close-in parking.

The total development will occupy 25 acres of land partially occupied by present corporate buildings.

The Company's decision to build at its present location rather than move was an extension of its policy to continue as an integral economic asset to the city of Chicago, its birthplace and life-long home.

For many years Wards has worked individually and with the city of Chicago in near north neighborhood improvement projects, including demolition of old buildings, expanding paving and lighting of parking lots and widening and improvement of Chicago Avenue, a main thoroughfare.

The Company also has provided a youth recreation program in which trained supervisors direct games and sports competition in company parking lots for neighborhood youth.

Ward's 1913 and 1928 famous white buildings (below) were the backdrop for ground-breaking ceremonies in April for the Company's new headquarters office building designed by Minouro Yamasaki. When completed early in 1973, the new structure (right) will stand as a symbol of Ward's continuing commitment to the neighborhood which has been its corporate home for more than 60 years.

SUBSIDIARY OPERATIONS

Pioneer Trust & Savings Bank was purchased by Montgomery Ward in 1966. The Bank has enjoyed steady growth over the past six years, while maintaining its commercial banking activities on a full national level. Total assets have grown from $185 million in 1966 to the present new high of $275 million. Net income in 1971 amounted to $3.1 million, an increase of 10.1% over 1970's $2.8 million.

Total assets at the end of 1971 increased $30 million, a 12.2% increase over 1970. Because of the enactment of the 1970 amendment to the federal Bank Holding Company Act, technically making Marcor a one-bank holding company, Montgomery Ward has filed an irrevocable letter of intent to divest itself of the Bank prior to January 1, 1981, unless an exemption is received.

During the past year Montgomery Ward Life Insurance Company expanded its successful program of mass merchandising Accident and Health insurance and continued development of its life insurance sales. This year for the first time, the Company's earnings made a contribution of $550,000 to consolidated profit.

Hydro Conduit Corporation consists of three divisions: Hydro Conduit, Rocky Mountain Prestress and Associated Sand and Gravel. Hydro Conduit is primarily a manufacturer of large diameter concrete pipe of the type used extensively in sanitary and storm sewers and irrigation systems. Rocky Mountain is engaged in the production of prestressed and precast concrete products, and has been active in the construction of a number of Montgomery Ward retail stores.

Associated Sand & Gravel produces concrete pipe, ready-mix and prestressed concrete, sand and gravel and asphalt in the Seattle and Everett, Washington area.

Total sales for Hydro Conduit Corporation in 1971 were $75 million compared with $63 million in 1970, an increase of 19%.

Net earnings for Hydro Conduit Corporation were approximately $1.2 million in 1971 compared to a modest loss of $300,000 in 1970. The increased earnings are the result of increased governmental funding for sanitary and storm sewers and irrigation systems.

Marcor Housing Systems was formed in 1970 to develop multi-family housing using industrial manufacturing techniques new to the building industry. The initial development, now underway, is the erection and rental of 472 apartments on a 21-acre site in Denver.

A model of contemporary living, complete with swimming, tennis and golf facilities, is a major middle income housing project launched by Marcor Housing Systems in Denver in 1971.

"Management development is contingent upon an organizational climate which encourages individual growth and achievement"

Henry G. Van der Eb
President and Chief
Executive Officer

Container Corporation of America completed its 14th consecutive year of sales growth in 1971, with sales reaching a new high of \$558,783,000, 6.1 per cent above 1970. Despite this sales improvement, achieved in an extremely competitive market, net operating earnings declined 19.9 per cent to \$24,165,000.

Steadily rising costs of raw materials, fuel, labor, and transportation, along with higher interest and taxes, could not be recovered through higher prices of end products or improved internal efficiencies. Earnings were also depressed by several unusual circumstances: a costly four-week strike which affected 11 packaging plants and seven paperboard mills; construction delays and start-up problems at our new Fernandina Beach mill; and lower overseas earnings resulting largely from the sluggish European economy.

While Container Corporation is subject to the same cost-price pressures and the same demand fluctuations as its competition, we have, nevertheless, generally been able to insulate ourselves from sharp cyclical swings within the industry and to maintain a level of profit performance which has been consistently better than that of the industry. Despite generally unfavorable conditions within the industry, our 1971 profits would have been considerably higher than those of

Thomas F. Cass, Executive Vice President; Henry G. Van der Eb, President and Chief Executive Officer; Frederick S. Crysler, Executive Vice President

Robert E. Feltes, Vice President and Controller; Paul W. Guenzel, Vice President and Treasurer.

Everett G. Temple, (above) Senior Vice President; and R. Harper Brown, Senior Vice President. Donn O. Jennings, (below) Senior Vice President; and William B. Whiting, Senior Vice President.

Harry E. Green, (above) Senior Vice President; Richard S. Kelly, Vice President and General Counsel; and William P. Peters, Vice President-Research and Planning.

Laurence A. Combs, Vice President-Industrial Relations; Richard C. Bittenbender, Vice President-Personnel

other paperboard packaging companies and would have compared favorably with our 1970 results. Instead, the unusual circumstances mentioned above depressed our 1971 earnings to a level that was about equal to the average industry performance.

FOSTERING FUTURE MANAGEMENT

Management development is contingent upon an organizational climate which encourages individual growth and achievement, affording an opportunity for leadership qualities to mature and expand.

One of the factors that distinguishes Container Corporation and provides potential for consistent better-than-industry performance is a strong decentralized organization, characterized by high levels of local autonomy.

Our continuing philosophy has been to consider our plants as autonomous, self-sufficient units, with maximum authority and responsibility delegated to the general manager of each property. The management team of a typical plant, consisting of general manager, sales manager, plant manager, and plant controller, is directly responsible for the sales, production, profit, and growth of the local unit.

This concept also constitutes a practical recognition of the nature of our business. Converting plants cater to diverse markets, where service and custom-tailored ingenuity are prerequisites to customer satisfaction and plant profitability. Decentralized management is the best way to provide the vitality and imagination so essential to success.

The same philosophical concept that enables us to develop our markets has been a key factor in developing mature management more quickly and in greater depth than could be accomplished in a highly centralized organization. With complete responsibility for local operations, a general manager develops his talents much more rapidly than he would under a more specialized organization. He becomes familiar with all aspects of running a business. He assumes responsibilities in his community, and has the opportunity to grow as an individual, to broaden himself, and to develop into a more effective manager.

Container Corporation is organized along product lines, with each principal product division headed by a vice president who has total responsibility for marketing, manufacturing, and profit. Within most product lines, division general managers, typically corporate officers, have regional responsibility in a particular geographic area, where they coordinate the efforts of the group of plants under their direction. With this approach, the delegation of authority and responsibility is genuine because it is accompanied by the delegation of profit responsibility.

During the past year, the organization was strengthened through several executive changes. The duties of R. Harper Brown, Senior Vice President in charge of domestic folding carton operations, were expanded to include administrative responsibilities for the composite can division. Richard S. Kelly, General Counsel, was elected a Vice President. William P. Peters, Vice President, Research and Planning, was elected to the Management Committee.

William H. Richards, Vice President, Overseas Division, assumed responsibility for European operations following the death in July of Edward N. Jacobs, Vice President.

LEADERSHIP IN PAPERBOARD PACKAGING

Container Corporation is the leading producer of paperboard packaging in the United States and has a major involvement in packaging overseas. The company has 55 packaging plants and mills in three European and three Latin American countries. Our 85 domestic operations are located in 25 states, with package fabricating plants situated in major manufacturing and distribution centers, and mills adjacent to raw material supplies.

Container leads the domestic industry in the manufacture of corrugated and solid fibre shipping containers, which are the basic distribution medium for most of the products grown and manufactured in the country. In 1971, sales of our 31 shipping container plants totaled $193 million, representing some 45 per cent of domestic sales.

We are also the nation's largest manufacturer of folding cartons, the basic package for consumer products sold in supermarkets, drug stores, and other retail outlets. Our 15 domestic folding carton plants last year produced sales of $131 million.

We are the nation's second largest producer of paperboard. Our 20 paperboard machines at 14 locations produced 1,481,000 tons of board last year, accounting for 5.6 per cent of total industry volume. Of this, 886,000 represented corrugating medium and linerboard, all of which was consumed by our own fabricating plants. We produced 593,000 tons of boxboard, about half of which was converted to cartons by our own plants, and the balance was sold to the trade.

Other product lines accounted for 15 per cent of our domestic sales. We are the nation's second largest producer of composite cans, which combine laminated paperboard bodies with metal or plastic ends, and are used for packaging motor oil, kitchen cleansers, frozen fruits, and a variety of other products.

Our involvement in plastics, although relatively small, is growing rapidly. Our plastics division concentrates on the production of industrial plastic containers and also operates its own fibre drum manufacturing plant.

Our Pioneer Paper Stock Division, the nation's largest collector of wastepaper for recycling, last year was involved in collection of

almost ten per cent of all secondary fibres re-used in the United States. In 1971, Pioneer collected more than a million tons of waste paper, 70 per cent of which were used as raw materials in our own mills. The Pioneer Paper Stock Division also has responsibility for supplying trucking services to our major product divisions.

Eye appeal is all important in food packaging. Container photographers employ highly sophisticated skills to capture qualities which will enable packages to sell our customers' food products. Coupled with creative design and superior printing, Container's photographic expertise represents a valuable resource to customer companies.

PACKAGING TO MEET CUSTOMER NEEDS

Although the paperboard packaging operations of Container Corporation are fully integrated, primary emphasis is placed on the development and production of finished packaging products—on adding maximum value to paperboard through its conversion into packaging. In 1971, converted packaging products accounted for 87 per cent of total domestic sales.

This emphasis on converted products, oriented to customer markets, affords the company better profit opportunities than those available to others who sell raw materials on a commodity basis. In order to provide our customers with marketing counsel, our organization is geared to understand marketing and distribution activities of customer companies, and to apply creative and technical services to the solution of their problems. By providing these problem solving services, our company becomes

Container-developed pupilometer measures consumer response to packaging stimuli by recording changes in pupil size. Such measurements assist in designing packaging to meet customer marketing requirements.

deeply involved in the introduction of new products by our customers. This is an essential involvement in today's dynamic consumer markets. Container is also an important factor in the design and production of point-of-purchase displays and other promotional materials.

Because the communicative ability of a package is a critical ingredient in the marketing success of a consumer product, we maintain 18 design and market research laboratories which create and test customer package designs. Each of our carton and shipping container plants also has its own structural design group which develops packaging concepts to ensure product protection and to provide ease of storage, handling, and use.

Each of our major product divisions maintains marketing and product development centers, which concentrate on research and development oriented to customer packaging needs. These divisional centers are located at Carol Stream, Illinois; St. Louis, Missouri; Valley Forge, Pennsylvania; and Wilmington, Delaware.

The company also maintains staffs of transportation, materials handling, and packaging machinery experts who support this problem solving orientation. Our mechanical packaging capabilities were

Structural designers and product development specialists create new uses for paperboard and adapt this versatile packaging material to a wide range of customer product needs.

Concora Wrap is typical of many mechanical packaging systems developed by the shipping container division to expedite handling of customer products. Traveling demonstrations such as this assist in explaining how the equipment works and how it can contribute to more profitable operations in customer plants.

The folding carton division's high speed visual carding machine (left) permits the packaging of products quickly and inexpensively, with a minimum of maintenance.

Everett G. Temple (below left), Senior Vice President-Shipping Container Division, reviews use of Primocca, a returnable solid fibre tray with reusable plastic rim. Designed for soft drink bottlers, the new tray offers an economical replacement for wooden and plastic cases.

This new paperboard modular exhibit system, flexible and fireproof, is one result of paperboard structural research.

enhanced in 1971 through acquisition of the Doerfer Corporation of Cedar Falls, Iowa. In addition to designing and producing packaging machinery systems, Doerfer develops automation systems and manufactures special purpose processing equipment for other industries.

INDUSTRY CONDITIONS IMPROVING

The paperboard industry is entering a period in which the relationship between capacity and demand in various segments of the industry will be as favorable as it has been at any time within recent years.

Paperboard production capacity, which has increased by an average of 3.8 per cent compounded annually for the past 15 years, is projected to increase by only 2.5 per cent during the next three years. Annual growth in demand for converted paperboard products is expected to follow its traditional rate of about five per cent per year. This should provide the basis for improved profitability.

Demand for corrugated shipping containers is projected to grow 5.4 per cent annually during the next ten years and to increase 7.5 per cent in 1972. Sales of folding cartons are projected to grow 3.9 per cent per year in the 1970's, compared to a 2.7 per cent growth rate during the last decade. Since these two products comprise over 75 per cent of our domestic sales, Container Corporation is in an excellent position to benefit from this overall growth.

R. Harper Brown (left), Senior Vice President-Folding Carton Division, inspects printed sheets at a carton plant. Close and continued inspection by plant personnel assures the highest possible printing quality.

A vital part of what makes Container Corporation the country's leading carton manufacturer is its modern facilities, efficient equipment, manufacturing experience, and technical competence.

Jerome S. Heisler (left), Vice President-Plastics Division; William P. Peters, Vice President-Research and Planning; Thomas L. Benson, Jr., Vice President-Composite Can Division.

Composite cans by the millions are produced to package liquids, oils, pastes, and powders. Food products represent a growing outlet for this type of packaging.

Corrugated shipping containers are essential to the distribution of most products—large and small. From giant rolls of paperboard, corrugators initiate the process of conversion into the familiar shipping container.

BUILDING TODAY FOR TOMORROW'S MARKETS

The vitality of any company is based upon its ability to anticipate market growth and to build and maintain modern facilities and equipment to meet present and future demand. In line with this philosophy, Container has made capital investments of $314 million during the last five years to provide the company with modern and efficient plants.

We plan to continue our capital investment program in 1972, but at a somewhat lower rate, and with heavier overseas concentration, than in recent years.

Capital expenditures in the domestic company totaled $261 million during the past five years. Substantial investments were made to construct or expand 16 converting plants and major additions were made to five of our 14 paperboard mills during this period.

In 1971, we built new shipping container plants in Cincinnati, Ohio, and Allentown, Pennsylvania, and completed expansion of our Memphis, Tennessee plant. We opened a new composite can plant in Jackson, Tennessee. A new folding carton plant was completed at Irvine Ranch, to serve the growing Southern California market. We also installed a new Ultraformer paperboard forming device at our Philadelphia boxboard mill.

Our most significant domestic capital investment in recent years was made at our Fernandina Beach,

Florida mill, completing an expansion program begun in 1968. This doubled the mill's capacity to 1,700 tons per day, and increased our total domestic containerboard capacity by 39 per cent. The two new machines began operation in 1971 and are rapidly approaching rated capacity.

Major domestic capital investments in 1972 will include completion of a new recovery boiler at our paperboard mill in Brewton, Alabama, and construction of a shipping container plant, a fibre drum manufacturing plant, and a plastic compounding facility.

PRESERVING ENVIRONMENTAL QUALITY

Container Corporation of America has long demonstrated its concern for the environment by promptly initiating environmental control programs designed to meet or exceed applicable local and national pollution abatement standards. We also have installed systems to insure continued compliance as these standards are modified.

Because of this historic policy, we are not now faced with the need for unusual capital spending for catch up environmental improvement. We do, however, anticipate that pollution control expenditures will constitute approximately ten per cent of our total domestic capital expenditures in 1972.

Our 11 recycling mills do not have the air and water quality problems normally experienced by chemical wood-pulping mills. Rather than causing environmental problems, these mills contribute to their solution by removing a substantial volume of wastepaper from municipal solid waste streams. Last year, these mills recycled over 700,000 tons of secondary fibre, representing 45 per cent of our total raw material requirements.

Container is also deeply involved in modern forest conservation practices. During the past ten years, we have planted over 71 million trees on company lands and distributed 22 million seedlings to other pulpwood producers. We plant five trees for each one we harvest, and have converted thousands of acres of land into tree plantations. On these plantations, trees are grown in the same fashion as other agricultural crops, but are harvested in cycles involving several decades. Securing maximum pulpwood yields from these lands helps assure future paperboard supply, while making lands available for recreational use, as well as serving as watersheds and as wildlife habitats.

The company has staffs of trained foresters at each of its three domestic pulp mill locations to bring professional forest management to company lands and to counsel outside pulpwood suppliers and individual tree farmers in conservation and land management practices.

INTERNATIONAL PACKAGING LEADERSHIP

The rate of growth of our overseas division in recent years has generally been higher than that of domes-

Donn O. Jennings, (left) Senior Vice President-Wood Pulping Mills, gets first hand look at modern forestry practices. The conversion of thousands of acres of lands into tree plantations helps assure future availability of raw materials for paperboard packages.

Installation of new recovery boiler at paperboard mill in Brewton, Alabama (below) will be completed during 1972. Paperboard produced at Brewton is converted into packages at plants throughout the East and Mid-America.

Control center (top) in paperboard machine room at Fernandina Beach, Florida, mill.

Aeration lagoons and settling ponds (center) such as these at the paperboard mill at Brewton, Alabama, are utilized for proper treatment of effluent at chemical wood-pulping mills.

Container is the nation's largest recycler of used paper fibres. A primary source of this raw material is old newspapers collected (bottom) by Boy Scouts and other volunteer groups.

Wet ends (top) of two new paperboard machines at Fernandina Beach mill. Fibre slurry goes through extensive drying process to remove excess water and form a sheet of paperboard.

William B. Whiting (below center), Senior Vice President-Combination Boxboard Mills, reviews operations of new Ultraformer at the company's Philadelphia mill.

tic operations, and the performance of this division has contributed to overall corporate earnings stability by offsetting adverse swings within the domestic company. In 1971, Container's overseas operations accounted for 23 per cent of consolidated sales and 33 per cent of total corporate profits.

While our subsidiaries in Colombia, Mexico, Venezuela, and the Netherlands increased their sales and maintained satisfactory profit levels, total overseas earnings for the year were lower because of poor business conditions in Italy and Spain. Slackened demand and depressed prices in both countries, and frequent labor strikes in Italian industry, adversely affected our profitability in 1971.

We entered the Spanish market in 1969 with the purchase of a 50 per cent interest in three shipping container plants and a paperboard mill. In order to provide us with a better opportunity to control and direct operations there, we purchased the remaining 50 per cent in 1971. We continue to be optimistic about the potential of our plants in Spain, and as the Spanish economy improves, the corporation is in an excellent position to participate in that improvement.

During the year, several overseas capital projects were completed and others started in order to maintain or increase our share of growing overseas markets. We opened a new corrugated plant and composite can facility in Anzio, Italy, south of Rome. In Mexico, the

International management team includes William H. Richards. European operations; David C. Whitehouse, Venezuela; Harry E. Green, Senior Vice President in charge of all overseas operations; Gustavo Gomez, Colombia; and Stanley B. Tamkin, who has responsibility for all Latin American subsidiaries.

company is building a new shipping container plant in Culiacan to handle our expanding produce packaging business there.

In Colombia, we installed new equipment at our Cali pulp operation, which will increase production and reduce costs. Further expansion of our mill operations there is planned as markets for our products continue to grow.
In Venezuela, we have initiated a program to produce paperboard from cane bagasse, a waste byproduct of sugar production. Construction of this new facility will begin in 1972, with completion scheduled for 1974.

We entered overseas packaging markets 26 years ago because we believed that paper and paperboard consumption and the need for packaging materials would increase substantially as standards of living improved in these areas. Because of the continued favorable prospects in the overseas countries where our subsidiaries are located, we look forward to continuing growth in overseas sales and profits. In each overseas country, local nationals occupy a high percentage of management positions in our operations, working with a small core group of key people who have had extensive experience in the domestic operations of Container.

This combination provides effective management teams which have the capability to take advantage of growth opportunities that will occur as these overseas economies continue to expand.

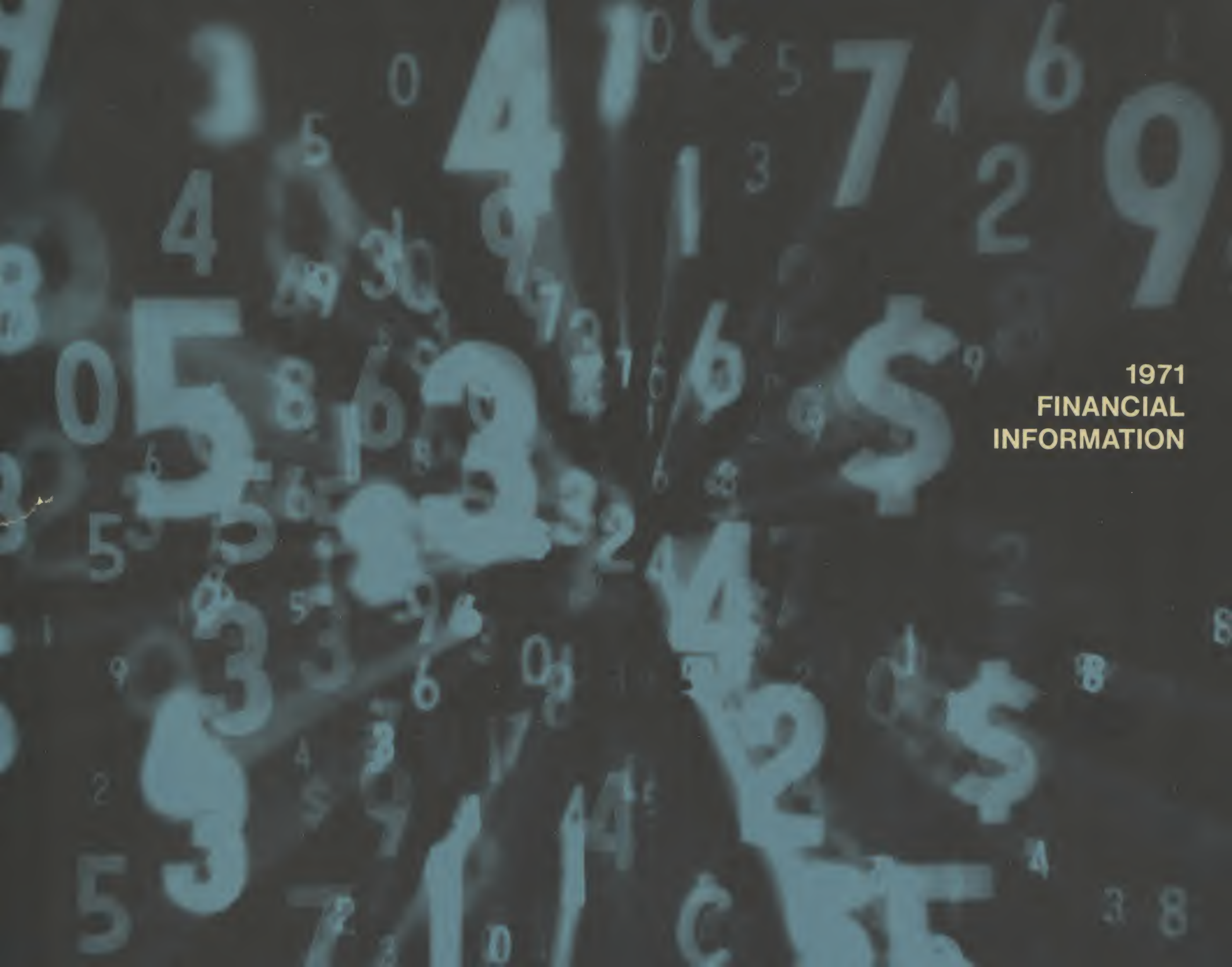
POTENTIAL FOR FUTURE GROWTH

Container Corporation of America has a depth of management unusually committed to growth and profitability. Our investment in modern and efficient plants and mills provides us with physical facilities in excellent condition.

Our orientation to customer markets should afford opportunity for improved performance in 1972 and future years.

In 1972, with the expected progressive improvement in the American economy, Container should benefit from vigorous cost reduction and overhead control programs which were instituted two years ago, and have recently been supplemented with a program designed to motivate employees to improved individual productivity.

Although we plan to maintain primary emphasis on internal growth, we continue to evaluate opportunities for diversification beyond our current businesses.



1971 FINANCIAL INFORMATION

STATEMENT OF MAJOR ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include the accounts of all significant subsidiaries other than those engaged in financial services (Montgomery Ward Credit Corporation, Pioneer Trust & Savings Bank and Montgomery Ward Life Insurance Company). The Company's investments in subsidiaries not consolidated are accounted for on the equity method and accordingly the earnings of these subsidiaries are included in net earnings and earnings reinvested.

In 1971, in accordance with a recently issued opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company's subsidiaries commenced accounting on the equity method for their investment in companies in which their ownership interests are between 20% and 50%. The prior year's financial statements have not been restated since this change would not be material.

Inventories
The valuation of retail store inventories is determined by the retail inventory method which involves pricing of individual items at current selling prices and the reduction of the amounts so determined to the lower of cost or market by the application of departmental markup ratios. All other merchandising inventories are priced by individual items on the basis of the lower of cost or market, cost being determined on the first-in, first-out method and market generally being considered current replacement cost. Manufacturing inventories, for the most part, are priced at the lower of average cost or market. The merchandise inventories reflect physical counts as of the respective year-end dates and other inventories are counted on a cycle basis. Due allowance is made for obsolete and shopworn merchandise.

Properties and Depreciation
Depreciation is provided on the straight-line method. Leasehold improvements are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Depletion of timberland is computed on the basis of estimated recoverable timber.

All items of maintenance and repairs are charged directly to earnings. Renewals and betterments of fixed assets are charged to property and equipment accounts. Upon retirement or other disposition of property, the cost is removed from the property accounts and the depreciation or amortization previously provided thereon is removed from the accumulated depreciation and amortization accounts. Gains or losses on such retirements are included in earnings.

Deferred Federal Taxes on Income
The Company provides currently for federal taxes on income applicable to all items included in the Statement of Earnings regardless of the period when such taxes are payable. For federal income tax purposes the gross profit from installment sales is deferred until the receivables arising from such sales are collected and such deferred taxes are classified as a current liability. This liability is reduced by the net amount of future tax benefits arising from other timing differences between book and taxable income relating to current asset and current liability accounts. Taxes deferred due to the use of accelerated depreciation for income tax purposes are classified as a non-current liability.

Investment Tax Credit
The reduction in federal income taxes resulting from the investment tax credit for new property and equipment is reflected in the statement of earnings currently.

Retirement Plans
The provision charged to earnings each year is sufficient to cover the retirement plan normal cost and interest on the prior service liability. The assets held by the Retirement Fund Trustees plus accruals on the Company's books are maintained at such levels as to be sufficient to cover all vested benefits.

Pre-opening and Pre-operating Expenses
Expenditures of a non-capital nature incurred prior to the opening of a new or relocated store are amortized over a 36-month period following the store opening date. Store closing costs and unamortized investment are charged to expense at the time of closing. Pre-operating expenses of manufacturing facilities are charged to expense as incurred except in isolated instances which are not material in total. Acquisition costs of the insurance business secured by the life insurance subsidiary are deferred and amortized over the estimated average life of the business secured.

Lease Obligations
As a general rule long-term leases are not capitalized unless the terms of the lease include an option to purchase at such a price that the payments made on the lease clearly represent purchase of an economic interest. Generally, leases for retail stores do not include such purchase options and are not capitalized.

Overseas Subsidiaries
The consolidated financial statements include all of the Company's significant overseas subsidiaries. The accounts of the overseas subsidiaries are translated to U.S. dollars based on official or free rates of exchange as follows: plant and equipment accounts at historic rates; other assets and liabilities at rates in effect at the end of the year; income accounts, with exception of depreciation translated at historic rates, at the applicable rates during the year. The Company maintains a reserve for possible reduction of asset values occasioned by overseas currency devaluations. No provision is made for U.S. income taxes on undistributed earnings of overseas subsidiaries.

Provision for Credit Losses
Provision for credit losses on Montgomery Ward's customer accounts is made in amounts required to maintain adequate reserves to cover anticipated losses. The customer accounts are charged off against the reserve if no payment has been received for nine months or if notices are received of bankruptcy, fraud, death without estate or confinement to an institution.

Costs of Acquiring Subsidiary Companies in Excess of Their Book Value
Costs of acquiring subsidiary companies in excess of underlying book value of assets resulting from transactions prior to October 31, 1970 are not amortized. Any such costs which may result from transactions after that date will be amortized over 40 years unless the values are assigned to specific identifiable assets, in which case the period of amortization will be the remaining life of the specific asset.

FINANCIAL INFORMATION

Sales increased 6.9% over the prior year.

	(In Millions) 1971	1970	Percent increase (decrease)
	(52 weeks)	(53 weeks)	
Merchandising (Montgomery Ward)			
Retail stores	$1,724	$1,637	5.3
Catalog	622	579	7.4
Other	31	11	181.8
	$2,377	$2,227	6.7
	(12 months)	(12 months)	
Packaging (Container Corporation)			
Domestic	$ 431	$ 411	4.9
Overseas	128	116	10.3
	$ 559	$ 527	6.1
Other (principally Hydro Conduit Corp.)	$ 63	$ 51	23.5
Total Sales	$2,999	$2,805	6.9

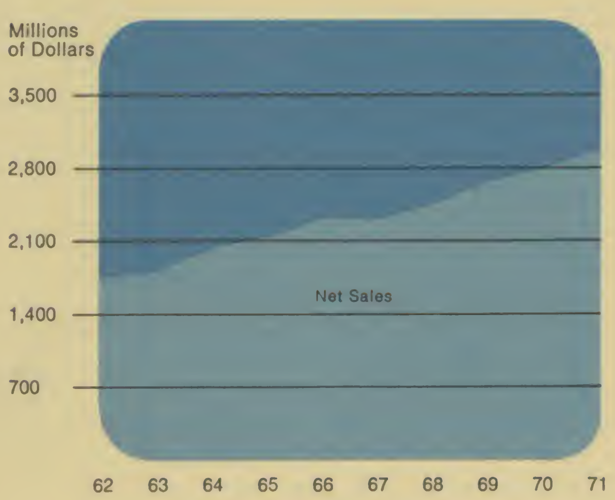
Both retail and catalog sales of Wards were at record levels during 1971. The 22 new retail stores opened by Wards during the year contributed $58,362,000 to sales. The total number of stores in operation at January 31, 1972, after closing 19 stores during 1971, was 465. Wards sales for 52 weeks in 1971 were 8.2% higher than 1970 on a comparable 52 week basis.

Catalog sales agencies increased from 961 to 1014. Catalog stores in operation at January 31, 1972 numbered 644 compared to 660 a year earlier.

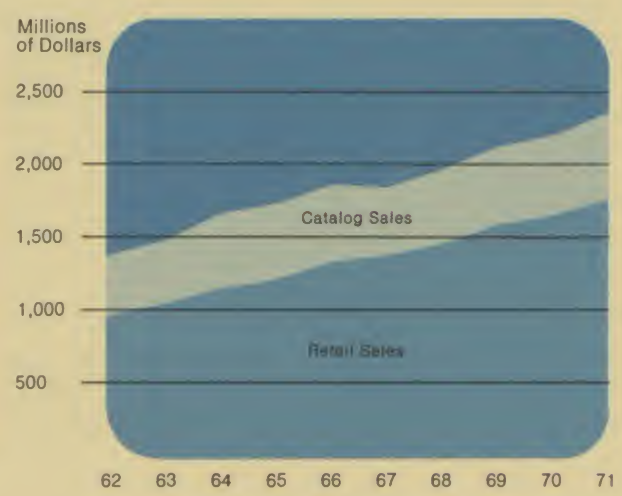
Larger stores contributed an increasing share of retail sales in 1971 compared to 1970.

Retail Stores (by annual volume)	1971 No. of Stores	1971 Tot. Sales (millions)	1970 No. of Stores	1970 Tot. Sales (millions)	Increase (Decrease) No. of Stores	Increase (Decrease) Tot. Sales (millions)
Over $10 million	33	$ 446	31	$ 423	2	$23
Five to $10 million	100	663	91	618	9	45
Under $5 million	332	615	340	596	(8)	19
Totals	465	$1,724	462	$1,637	3	$87

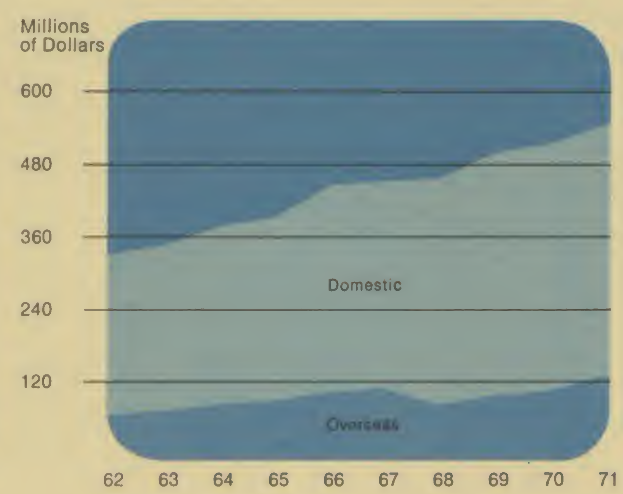
Marcor Net Sales



Montgomery Ward Total Sales:
Retail Stores and Catalog



Container Corporation Sales:
Domestic and Overseas



Sales of Container Corporation continued to be predominantly in finished packaging with an overall sales increase of $32 million.

	(In Millions) 1971	1970	Percent of Total 1971	1970
Shipping containers	$255	$249	45.6	47.3
Paperboard cartons	152	141	27.2	26.8
Other packaging	60	54	10.7	10.2
Total finished packaging	$467	$444	83.5	84.3
Paperboard and miscellaneous	92	83	16.5	15.7
Total Sales	$559	$527	100.0	100.0

Net Earnings decreased 3.6% from $59,637,000 in 1970 to $57,512,000 in 1971 as the increase of 10.1 per cent in Ward's operating earnings was not sufficient to offset the 19.9 per cent decrease in Container's operating earnings.

	(thousands) 1971	1970	Increase (Decrease)
Merchandising (Montgomery Ward)	$43,012	$39,071	$ 3,941
Packaging (Container Corporation)	24,165	30,170	(6,005)
Other	1,040	(666)	1,706
Net operating earnings	$68,217	$68,575	$ (358)
Less—Marcor interest expense	10,705	8,938	1,767
Net Earnings	$57,512	$59,637	$(2,125)

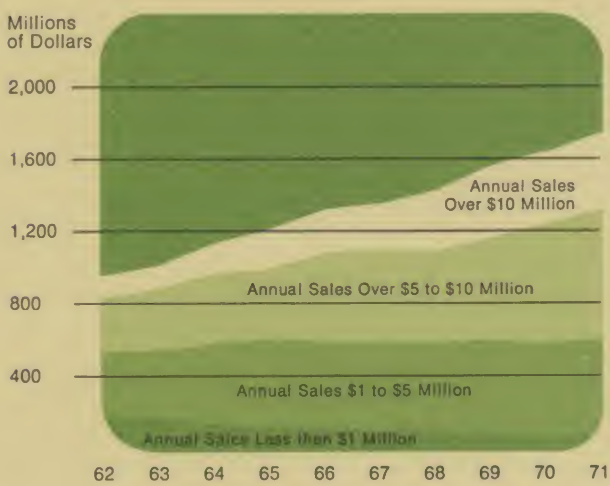
Overseas earnings of Container Corporation accounted for $.19 and $.24 per common share (fully diluted) in 1971 and 1970 respectively. A summary of overseas operations is:

	1971	1970
Net Assets	$ 96,455,000	$ 86,765,000
Represented by—		
Minority interest	$ 16,685,000	$ 14,949,000
Container's equity	79,770,000	71,816,000
Net Sales	128,142,000	115,444,000
Total Earnings	10,435,000	11,877,000
Container Corporation's Equity in Total Overseas Earnings	7,967,000	9,530,000

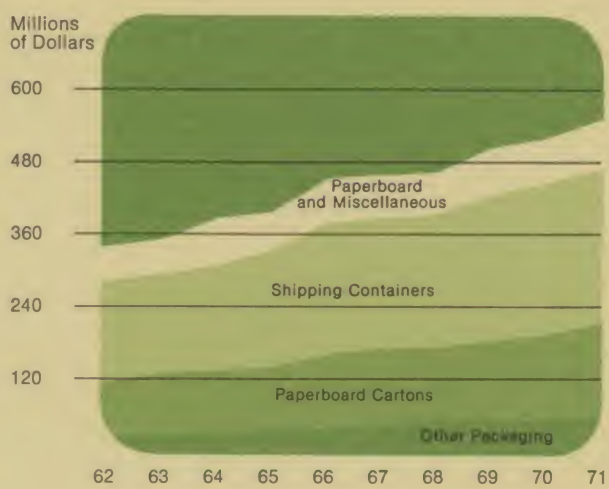
Unaudited earnings by quarter were:

Quarter	Total Earnings *(thousands)* 1971	1970	Earnings Per Share *(Fully Diluted)* 1971	1970
1st	$11,169	$10,433	$ .28	$ .27
2nd	9,924	12,152	.25	.31
3rd	10,351	11,720	.26	.29
4th	26,068	25,332	.63	.63
Total Year	$57,512	$59,637	$1.42	$1.50

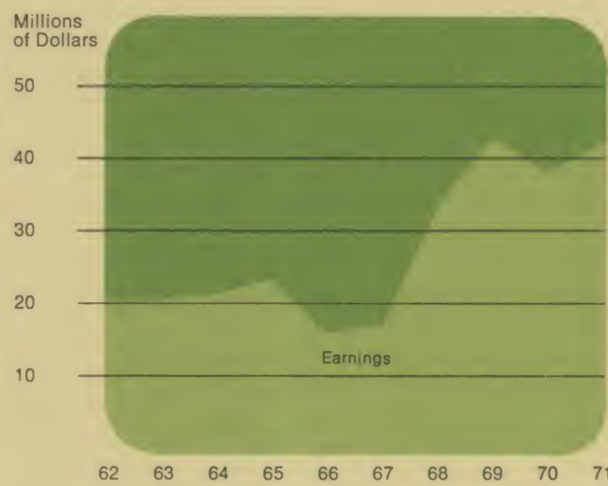
Montgomery Ward Retail Sales:
By Store Volume Categories



Container Corporation Sales:
By Product Categories



Montgomery Ward
Net Operating Earnings



Earnings Per Share (fully diluted) decreased 5.3% from $1.50 in 1970 to $1.42 in 1971. Primary earnings per share were $1.64 compared to $1.77 last year. Earnings per share have been calculated as follows:

	Common and Common Equivalent Shares	Assuming Full Dilution
Average number of common shares outstanding	26,782,459	26,782,459
Common stock equivalents due to assumed exercise of options	405,691	412,199
Increase in average number of common shares assuming conversion of securities	—	14,361,354
Total Shares	27,188,150	41,556,012
Net earnings	$57,512,000	$57,512,000
Add—interest on convertible debentures less applicable taxes on income	—	1,591,000
Less—preferred dividend requirements based on average number of shares and equivalent shares outstanding during year	(12,838,000)	—
Net earnings used in per share calculations	$44,674,000	$59,103,000
Net earnings per share	$1.64	$1.42

Each share of Series A preferred stock ($2.00 per share cumulative dividends) is convertible into two shares of common stock at any time and is callable after May 1, 1974 at $45.00 per share liquidating value. The aggregate liquidating value was $277,170,000 at January 31, 1972 and $298,595,000 at January 31, 1971.

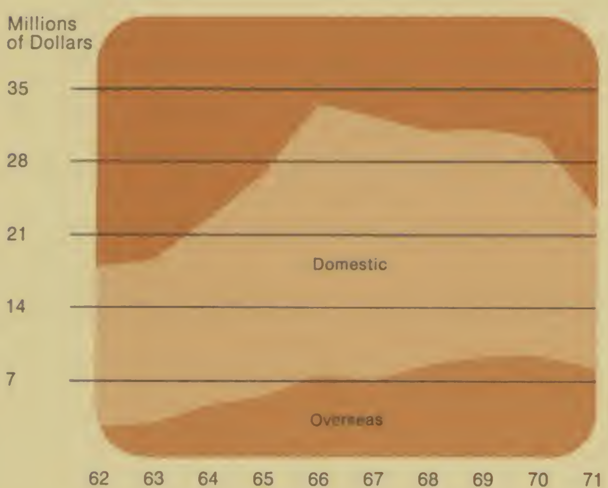
Dividends on common stock continued at an annual rate of $0.80 per share and totaled $21,413,000 during 1971. Preferred stock dividends, $2.00 per share, totaled $12,737,000. Total dividend payments represented 59% of Marcor net earnings.

Capital Expenditures totaled $173 million in 1971 compared with $160 million expended in 1970. Montgomery Ward capital expenditures represent the continued expansion of the retail store program along with supporting facilities. Container Corporation expenditures included completion of the Fernandina Beach, Florida mill expansion; a new recovery boiler at the Brewton, Alabama mill; modernization of a paperboard machine at the Philadelphia mill; completion or expansion of four corrugated plants, a paperboard carton and a composite can plant; and acquisition of the second 50% of a paperboard mill and three corrugated plants in Spain.

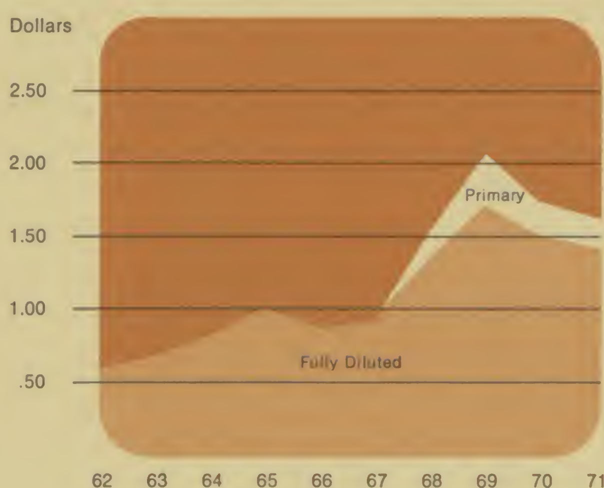
	Montgomery Ward	Container Corporation	Other Subsidiaries	Marcor Consolidated
		(in thousands)		
1972 Estimate (unaudited)	$86,000	$63,000	$14,000	$163,000
1971	97,770	64,139	11,477	173,386
1970	72,998	79,844	6,929	159,771
1969	55,060	73,529	7,739	136,328
1968	36,774	46,322	16,626	99,722
1967	26,645	50,060	19,240	95,945

Depreciation and deferred income taxes provided $90,821,000 of cash flow which, along with $23,362,000 of net earnings after dividends provided two-thirds of the funds for capital expenditures. The balance of the requirements was met by additional financing.

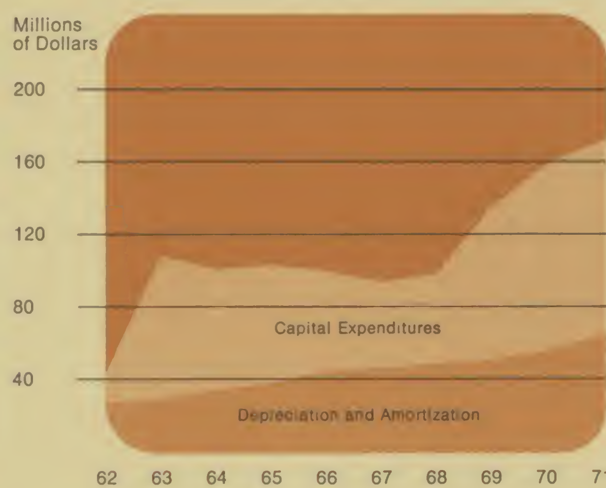
Container Corporation
Net Operating Earnings



Marcor Earnings Per Share



Marcor Capital Expenditures,
Depreciation and Amortization



Federal and overseas income taxes were 42.1% for 1971 and 45.7% for 1970 of earnings before taxes on income.

	1971	1970	Per cent increase (decrease)
Federal and overseas taxes on income:			
Currently payable	$12,679,000	$21,180,000	(40.1)
Deferred	29,095,000	29,080,000	—
Total	$41,774,000	$50,260,000	(16.9)

The provisions for federal taxes on income for 1971 and 1970 were reduced by $4.7 million and $1.6 million, respectively, due to the investment tax credit, which is accounted for using the "flow-through" method.

Accounts Receivable totaled $1.26 billion, the same as a year ago. This amount includes accounts sold to banks and accounts held by the Credit Corporation. Collections during 1971 were higher than had been experienced in prior years as a percentage of the outstanding balances. The following is a summary of net accounts receivable shown in the balance sheet of Marcor Inc. and consolidated subsidiaries.

	(in thousands) January 31, 1972	January 31, 1971
Consumer credit receivables:		
Time Payment	$ 19,508	$ 40,180
Revolving Charge (After reduction for customers' balances of $74,372 in 1971 and $206,885 in 1970 sold to banks without recourse)	975,671	832,159
Other	195,495	185,194
	$1,190,674	$1,057,533
Less:		
Reserves for uncollectible accounts and unearned service charges	(33,780)	(36,475)
Accounts sold to Credit Subsidiary	(890,043)	(709,954)
Receivables, less reserves	$ 266,851	$ 311,104

Ward's credit sales were 49.1% of total sales in 1971 as compared to 51.5% in 1970. The average customer balance outstanding at the end of 1971 was $203 compared to $209 in 1970. Credit losses of $27,530,000 in 1971 and $28,134,000 in 1970 represented 2.39% and 2.46%, respectively, of total net credit sales.

Consumer Credit Operations of Montgomery Ward showed improved results during 1971 principally because of lower financing costs. The 1970 figures have been restated to conform to the presentations made by other companies in the merchandising industry.

	1971	1970
Service charges	$168,474,000	$166,858,000
Expenses:		
Payroll	$ 38,633,000	$ 38,418,000
Provision for uncollectible accounts	27,104,000	29,004,000
All other credit and collection expenses	40,431,000	35,208,000
Interest, computed as stated below	48,140,000	56,961,000
Federal taxes on income	6,800,000	3,561,000
Total Expenses	$161,108,000	$163,152,000
Excess of service charges over expenses	$ 7,366,000	$ 3,706,000

Allocation of interest to the consumer credit operation was made using (a) the average rate of interest incurred during each year (5.60% in 1971 and 6.77% in 1970) and (b) the average total customer accounts receivable less deferred federal income taxes applicable to installment receivables. Service charges are credited against operating expenses in the statement of earnings.

Credit Litigation—A number of pending lawsuits against Montgomery Ward and against other retailers, some of which purport to be brought as class actions, attacked under federal and state laws the legality of certain credit and billing practices. The relief requested in these lawsuits includes: refunds of finance charges and certain taxes collected during periods dating back to 1964; refunds of principal balances collected since 1968; statutory penalties under state laws and the federal Truth-in-Lending Act; injunctive relief requiring changes in the challenged practices; relief preventing the collection of outstanding balances; and costs, including reasonable attorneys fees. The ultimate liability to the Company under the lawsuits against Montgomery Ward is not presently determinable, but such suits could, over a period of time, involve millions of dollars if they should be decided adversely. However, the management of the Company does not anticipate that the ultimate disposition of these lawsuits will have a material adverse effect on the business or the financial position of the Company.

Montgomery Ward Credit Corporation's earnings were lower because of its reduced interest cost since it is Montgomery Ward's policy to maintain net earnings of the Credit Corporation equal to 1½ times the Credit Corporation's fixed charges on debt. The earnings before taxes on income of the Credit Corporation are included in the consolidated statement of earnings as a reduction of interest expense and the provision for taxes on income is included in the consolidated provision. A separate annual report for the Credit Corporation is available upon request.

The Credit Corporation follows the policy of maintaining lines of credit with banks in amounts adequate to support the total amount of commercial paper outstanding and amounted to $430,000,000 at year end. The average interest rate on commercial paper of the Credit Corporation outstanding during 1971 was 4.80% compared with 7.46% in 1970.

Montgomery Ward Credit Corporation's condensed statements of financial position and earnings were:

FINANCIAL POSITION *(millions)*	February 2, 1972	February 3, 1971
Assets		
Customers' receivables purchased from Montgomery Ward & Co., Incorporated without recourse, less portion withheld pending collection	$890.0	$ 710.0
Marketable securities	78.8	—
Due from Montgomery Ward	7.0	328.4
Cash	11.5	9.1
Other assets	3.1	3.9
Total Assets	$990.4	$1051.4
Liabilities		
Notes payable and current portion of long-term debt	$429.3	$ 526.9
Accrued taxes and expenses	7.4	8.8
Long-term debt	395.0	345.0
Equity of Montgomery Ward	158.7	170.7
Total Liabilities and Equity	$990.4	$1051.4

EARNINGS *(millions)*	52 Weeks Ended February 2, 1972	53 Weeks Ended February 3, 1971
Income		
Earnings on investment in deferred payment accounts	$62.4	$79.6
Interest on notes of Montgomery Ward	10.3	11.0
Other income	2.2	1.4
Total Income	$74.9	$92.0
Expense		
Interest	$49.2	$60.2
Other expenses	.7	.7
Provision for federal taxes on income	12.0	15.2
Total Expense	$61.9	$76.1
Net Earnings	$13.0	$15.9

Long-term debt of the Credit Corporation includes term notes and debentures with interest rates varying from 4¾% to 9¼%. The term notes totaling $75,000,000 mature over the next four years and the debentures totaling $320,000,000 mature between 1980 and 1990 in amounts ranging from $25,000,000 to $60,000,000 per year.

Investments and Other Assets include:

	January 31, 1972	January 31, 1971
Unconsolidated subsidiaries:		
Montgomery Ward Credit Corporation	$158,748,000	$170,744,000
Pioneer Trust & Savings Bank	24,710,000	23,656,000
Montgomery Ward Life Insurance Company	7,405,000	6,370,000
Other	1,913,000	5,769,000
	$192,776,000	$206,539,000
T. R. Miller Mill Co. (49% interest)	17,804,000	17,745,000
Other assets	5,870,000	6,289,000
Total Investments and other assets	$216,450,000	$230,573,000

The excess of cost of these investments over underlying book value at dates of acquisition which are included in the above amounts was $7,557,000 and $8,484,000 at January 31, 1972 and 1971 respectively.

Pioneer Trust & Savings Bank earnings are included in the consolidated earnings and accounted for $.07 per common share in both years on a fully diluted basis. The Company has agreed to divest itself of the Bank within ten years from January 1, 1971 in order to comply with the Bank Holding Company Act unless an exemption can be obtained.

The Montgomery Ward Life Insurance Company continued to grow as premium income for 1971 increased to $12.1 million from $10.8 million in 1970. During the past year the Life Insurance Company expanded its successful program of mass merchandising Accident and Health insurance and continued development of its life insurance sales. This year for the first time the Company's earnings made a positive contribution to consolidated earnings.

T. R. Miller Mill Co. contributed $130,000 to Marcor earnings during 1971.

Hydro Conduit Corporation's net earnings were $1,177,000 compared to a loss of $328,000 last year. Marcor Housing Systems sales and operating results were not significant because rental of apartment units did not commence until December 1, 1971.

Retirement Plans of a contributory nature cover a majority of all regular full-time employees of Marcor and its subsidiaries. The total cost provided applicable to these plans, including interest on unfunded prior service, was $8,979,000 for 1971 and $7,540,000 for 1970. The retirement plan accruals, together with assets held by retirement fund trustees, were sufficient to cover all vested benefits. The subsidiaries fund the retirement plans on a discretionary basis. In determining the actuarial liabilities and the current service costs the rate of estimated future earnings of the investments in the plans was increased in 1971 from 5% to 6% to reflect more closely the actual average earnings of the plans. This change did not materially affect the Company's earnings.

Financing during 1971 included the sale of $100 million of 5% convertible (at $40.50 per common share) subordinated debentures by Marcor and the sale of $50 million of three-year notes with a variable interest rate (5% at year-end) by the Credit Corporation. Short-term financing during 1971 included the sale of $86 million of accounts receivable to banks for orderly satisfaction of financial requirements and to facilitate tax planning. Real estate financing totaled $14.1 million during 1971. Proceeds of financing were used primarily by Montgomery Ward for capital expenditures, working capital and other short-term debt reduction. Long-term debt, excluding that of the Credit Corporation, is:

	January 31, 1972	January 31, 1971
Marcor Inc.—		
6½% Subordinated Instalment Debentures due 1988	$269,302,000	$269,302,000
5% Convertible Subordinated Debentures due 1996	100,000,000	—
Container Corporation of America and Subsidiaries—		
Sinking Fund Debentures due from 1980 to 1993 bearing interest from 3.30% to 6⅝%	66,429,000	69,815,000
Lease obligations, average interest rate of 5¾%	50,356,000	50,602,000
Other	28,117,000	16,125,000
Montgomery Ward & Co., Incorporated—		
Sinking Fund Debentures due from 1982 to 1990 bearing interest from 4⅞% to 6%	139,761,000	161,837,000
Other	3,845,000	4,555,000
Montgomery Ward Real Estate Subsidiaries—		
Secured Notes due serially to 1999 bearing interest from 4¾% to 8½%	63,918,000	51,399,000
Other Subsidiaries—		
Various Notes and Debentures maturing over the next ten years	4,836,000	4,215,000
Total Long-term debt	$726,564,000	$627,850,000

Long-term debt payment requirements, excluding $11,568,000 due in 1972, are as follows:

1973	$13,298,000	1982-1986	$127,309,000
1974	14,144,000	1987-1991	312,321,000
1975	19,532,000	1992-1996	121,800,000
1976	17,713,000	After 1996	4,586,000
1977-1981	95,861,000	Total Long-term debt	$726,564,000

Under the indentures covering the long-term indebtedness of the Company none of its Earnings Reinvested is restricted as to the payment of dividends. The indentures covering the long-term indebtedness of the Company's consolidated subsidiaries contain provisions which restrict the amount of dividends these subsidiaries may pay to the Company. Under the most restrictive of these provisions, $173,756,000 of Earnings Reinvested of these subsidiaries was available at January 31, 1972 for payment of dividends. During 1971, $21,000,000 of 4⅞% Montgomery Ward debentures due in 1990 and $3,386,000 of Container Corporation Sinking Fund debentures of varying interest rates and due dates were purchased for the sinking funds.

Lease obligations of Marcor subsidiaries, which have not been capitalized, under real estate leases in effect on January 31, 1972 and expiring more than three years thereafter provide for present minimum annual rental payments by these subsidiaries aggregating approximately $36,366,000. In certain instances, additional amounts are due, such as real estate taxes and additional rent based upon percentage of sales. The majority of these leases expires by 1995. As of January 31, 1972 approximately $243,000,000 was the present value, when discounted, of the future minimum rental obligations under real estate and personal property leases having original terms of more than three years, excluding estimated obligations for property taxes and other expenses relating to the maintenance of the leased properties.

Common Stock transactions during 1971 were:

	Shares	Amount
Balance January 31, 1971 as previously reported	26,261,154	$230,677,000
Issued in connection with poolings of interest	125,712	323,000
Balance January 31, 1971 as restated	26,386,866	$231,000,000
Retired in connection with poolings of interest	(125,712)	(1,095,000)
Options exercised	183,134	2,931,000
Preferred shares converted to common shares	1,215,614	4,459,000
Restricted stock issued	10,857	402,000
Excess of proceeds over cost of treasury shares issued	—	278,000
Balance January 31, 1972	27,670,759	$237,975,000

A total of 116,318 shares of preferred stock and 16,541,197 shares of common stock was reserved as of January 31, 1972 for conversion of outstanding preferred stock and convertible debentures and for stock option plans.

Changes in the treasury stock account during 1971 included the conversion of 169,000 shares of preferred stock into 338,000 shares of common stock and the subsequent reissuance of 166,244 shares of common stock in connection with acquisitions.

Stock Option activity for the year ended January 31, 1972 was:

	Common Stock	Preferred Stock
Options outstanding at beginning of year	965,174	250,746
Options granted during year	33,050	—
Options exercised during year	(183,134)	(131,678)
Options cancelled and expired during year	(13,800)	(2,750)
Options outstanding at end of year	801,290	116,318
Average option price of outstanding options	$23.47	$34.12
Average option price of options exercised during year	$16.00	$33.44
Options exercisable at January 31, 1972	427,473	77,751

Service contract sales of Montgomery Ward in prior years had been taken into income as the contracts were sold. In 1971 the Company adopted the policy of deferring this income over the life of the contracts and accordingly the unearned income at the beginning of 1971 is reflected as an adjustment of earnings reinvested as of January 31, 1971. This change had no material effect on 1971 or prior year's earnings.

Acquisitions during 1971 included Doerfer Corporation, a packaging engineering company, by Container Corporation; Putsch's Restaurants, a five-unit restaurant chain in Kansas City and the Yard-Man Division of The Leisure Group, a manufacturer of outdoor power equipment, by Wards; and the asphalt operations of Youell, Inc. by a member of the Hydro Conduit Group. Total consideration for these acquisitions approximated $15,000,000. Container Corporation also acquired the remaining 50% of its previously 50% owned Spanish operations at a cost of $2,538,000.

The acquisitions did not have a significant effect on sales or earnings of the Company during the year. The Doerfer and Putsch acquisitions were treated as poolings of interest and prior year's financial statements have not been restated for these acquisitions since the change would not be material. The Youell, Yard-Man and Spanish acquisitions were treated as purchases.

Subsequent to January 31, 1972, Montgomery Ward agreed to acquire a seven unit cafeteria chain which, along with the Putsch acquisition, will be a part of Ward's Food Services Division which includes food service units in 255 stores.

AUDITORS' REPORT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF MARCOR INC.:

We have examined the balance sheet of Marcor Inc. (a Delaware Corporation) and consolidated subsidiaries as of January 31, 1972 and the related statements of earnings, earnings reinvested and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Marcor Inc. and consolidated subsidiaries as of January 31, 1972, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co

ARTHUR ANDERSEN & CO.
Chicago, Illinois,
March 17, 1972.

STATEMENT OF EARNINGS

	Fiscal Years Ended January 31, 1972	1971
Net Sales	$2,998,577,000	$2,804,856,000
Costs and Expenses:		
Cost of goods sold	$2,179,096,000	$2,010,517,000
Operating, selling, administrative and research expenses	634,446,000	593,589,000
Interest expense	85,749,000	90,853,000
Total Costs and Expenses	$2,899,291,000	$2,694,959,000
Earnings before Taxes on Income	$ 99,286,000	$ 109,897,000
Provision for Taxes on Income (currently payable, $12,679,000 in 1971 and $21,180,000 in 1970)	41,774,000	50,260,000
Net Earnings	$ 57,512,000	$ 59,637,000
Net Earnings Per Common Share and Common Equivalent Share	$1.64	$1.77
Net Earnings Per Common Share Assuming Full Dilution	$1.42	$1.50

STATEMENT OF EARNINGS REINVESTED

	Fiscal Years Ended January 31, 1972	1971
Balance at Beginning of Year as Previously Reported	$ 628,649,000	$ 613,674,000
Earnings reinvested of companies acquired through poolings of interest	1,461,000	—
Adjustment to reflect deferral of service contract income less applicable taxes on income of $8,888,000	(9,629,000)	—
Balance at Beginning of Year as Restated	$ 620,481,000	$ 613,674,000
Net Earnings	57,512,000	59,637,000
Total	$ 677,993,000	$ 673,311,000
Cash Dividends:		
Preferred stock ($2.00 per share)	$ 12,737,000	$ 13,125,000
Common stock ($.80 per share in 1971 and $.72½ per share in 1970)	21,413,000	18,663,000
Total Dividends	$ 34,150,000	$ 31,788,000
Excess of Cost Over Stated Value of Treasury Common Shares Retired	2,444,000	—
Transfer to Common Stock Pursuant to Stock Split	—	12,874,000
Total	$ 36,594,000	$ 44,662,000
Balance at End of Year	$ 641,399,000	$ 628,649,000

STATEMENT OF CHANGES IN FINANCIAL POSITION

		Fiscal Years Ended January 31, 1972	1971
Source of Working Capital:	Net earnings	$ 57,512,000	$ 59,637,000
	Depreciation, amortization and depletion	63,747,000	54,118,000
Operations	Deferred taxes on income	11,801,000	10,545,000
	Dividends received from unconsolidated subsidiaries in excess of (less than) their current year's earnings	10,448,000	(14,964,000)
	Provided from operations	$143,508,000	$ 109,336,000
	Proceeds from stock options exercised	7,334,000	7,898,000
Other	Long-term financing	139,079,000	8,487,000
	Decrease (increase) in investments and other assets	3,675,000	(18,504,000)
	Decrease in funds held for construction	—	22,458,000
	Total sources of working capital	$293,596,000	$ 129,675,000
	Property additions and improvements	$173,386,000	$ 159,771,000
Disposition of	Reduction of long-term debt	40,365,000	33,147,000
Working Capital:	Cash dividends	34,150,000	31,788,000
	Other, net	8,142,000	(4,223,000)
	Total disposition of working capital	$256,043,000	$ 220,483,000
Increase (Decrease) in Working Capital		$ 37,553,000	$ (90,808,000)

CHANGES IN WORKING CAPITAL

	Inventories	$ 31,384,000	$ 67,701,000
Increases in	Prepaid expenses	2,065,000	15,621,000
Working Capital:	Decrease (increase) in notes payable to credit subsidiary	321,400,000	(300,700,000)
	Total increases	$354,849,000	$(217,378,000)
	Cash and securities	$177,495,000	$(215,703,000)
	Receivables	44,253,000	13,836,000
Decreases in	Short-term obligations	3,704,000	7,492,000
Working Capital:	Accounts payable and accrued expenses	90,047,000	37,150,000
	Taxes on income—currently payable	(13,476,000)	12,992,000
	Taxes on income—deferred (primarily relating to installment receivables)	15,273,000	17,663,000
	Total decreases	$317,296,000	$(126,570,000)
Increase (Decrease) in Working Capital		$ 37,553,000	$ (90,808,000)

The Statement of Major Accounting Policies and the Financial Information on pages 40 through 47, 52 and 53 are an integral part of these statements.

BALANCE SHEET

ASSETS		January 31, 1972	January 31, 1971
Current Assets	Cash	$ 33,498,000	$ 34,489,000
	Marketable securities, at cost which approximates market	37,678,000	214,182,000
	Receivables, less reserves	266,851,000	311,104,000
	Inventories, at the lower of cost or market	629,904,000	598,520,000
	Prepaid expenses	70,839,000	68,774,000
	Total Current Assets	$1,038,770,000	$1,227,069,000
Other Assets	Investments and other assets	$ 216,450,000	$ 230,573,000
Properties and Equipment, at cost	Land	$ 92,890,000	$ 82,644,000
	Timberlands, less depletion	53,843,000	53,534,000
	Buildings	458,513,000	412,202,000
	Leasehold improvements	66,925,000	45,802,000
	Machinery, fixtures and equipment	768,800,000	690,523,000
		$1,440,971,000	$1,284,705,000
	Less—Accumulated depreciation and amortization	503,791,000	453,052,000
	Properties and Equipment, Net	$ 937,180,000	$ 831,653,000
Financing Costs	Unamortized financing costs	$ 4,794,000	$ 3,689,000
Acquisition Cost in Excess of Book Value	Excess of cost of acquired subsidiaries over underlying book value at dates of acquisition	$ 173,608,000	$ 166,746,000
	Total Assets	$2,370,802,000	$2,459,730,000

LIABILITIES		January 31, 1972	January 31, 1971
Current Liabilities	Short-term loans and current portion of long-term debt	$ 23,504,000	$ 19,800,000
	Notes payable to Montgomery Ward Credit Corporation	7,000,000	328,400,000
	Accounts payable and accrued expenses	451,270,000	361,223,000
	Taxes on income—Currently payable	3,641,000	17,117,000
	—Deferred (primarily relating to installment receivables)	153,229,000	137,956,000
	Total Current Liabilities	$ 638,644,000	$ 864,496,000
Deferred Taxes	Deferred taxes on income (relating to accelerated depreciation)	$ 68,221,000	$ 56,420,000
Long-term Debt, less amounts due within one year	Senior indebtedness	$ 356,352,000	$ 357,508,000
	Subordinated indebtedness	270,212,000	270,342,000
	Convertible subordinated indebtedness	100,000,000	—
	Total Long-term Debt	$ 726,564,000	$ 627,850,000
Minority Interest	Minority interest in subsidiaries	$ 16,685,000	$ 14,949,000
Stockholders' Equity	Preferred stock, $1.00 par value, issuable in series, authorized 30,000,000 shares; issued, Series A, 6,159,323 shares in 1972 and 6,635,452 shares in 1971 at stated value	$ 46,150,000	$ 46,206,000
	Common stock, $1.00 par value, at stated value—Authorized 70,000,000 shares; issued 27,670,759 shares in 1972 and 26,261,154 shares in 1971	237,975,000	230,677,000
	Earnings reinvested	641,399,000	628,649,000
		$ 925,524,000	$ 905,532,000
	Less—Treasury stock, at cost; 171,756 common shares in 1972; 169,000 preferred shares held by subsidiary in 1971	4,836,000	9,517,000
	Total Stockholders' Equity	$ 920,688,000	$ 896,015,000
	Total Liabilities and Stockholders' Equity	$2,370,802,000	$2,459,730,000

The Statement of Major Accounting Policies and the Financial Information on pages 40 through 47, 52 and 53 are an integral part of these statements.

BALANCE SHEETS	Montgomery Ward & Co., Incorporated and Consolidated Subsidiaries		Container Corporation of America and Consolidated Subsidiaries	
ASSETS	February 2, 1972	February 3, 1971	January 31, 1972	January 31, 1971
Current Assets				
Cash	$ 25,996,000	$ 28,381,000	$ 6,516,000	$ 4,435,000
Marketable securities	30,044,000	207,120,000	7,634,000	7,062,000
Receivables, net	188,125,000	236,687,000	67,566,000	63,062,000
Advances to affiliate	40,372,000	23,336,000	—	—
Inventories	554,143,000	525,788,000	67,439,000	64,767,000
Prepaid expenses	51,414,000	52,330,000	15,491,000	14,258,000
Total Current Assets	$ 890,094,000	$1,073,642,000	$164,646,000	$153,584,000
Investments and Other Assets	227,384,000	239,239,000	20,707,000	32,541,000
Properties and Equipment, net	481,854,000	416,757,000	413,777,000	380,705,000
Unamortized Financing Costs	1,875,000	1,919,000	1,288,000	1,411,000
Excess of Cost of Acquired Subsidiaries Over Underlying Book Value at Dates of Acquisition	2,855,000	—	6,605,000	3,402,000
Total Assets	$1,604,062,000	$1,731,557,000	$607,023,000	$571,643,000
LIABILITIES				
Current Liabilities				
Payable to affiliates	$ 7,000,000	$ 328,400,000	$ 44,079,000	$ 35,436,000
Short-term loans and current portion of long-term debt	3,437,000	4,198,000	17,126,000	14,220,000
Deferred taxes on income (primarily relating to installment receivables)	142,876,000	129,085,000	—	—
Other current liabilities	377,293,000	299,494,000	71,579,000	62,626,000
Total Current Liabilities	$ 530,606,000	$ 761,177,000	$132,784,000	$112,282,000
Deferred Taxes on Income	34,115,000	27,750,000	26,172,000	24,740,000
Long-Term Debt	207,524,000	217,791,000	144,903,000	136,542,000
Minority Interest in Subsidiaries	—	—	16,685,000	14,949,000
Equity of Marcor Inc.	831,817,000	724,839,000	286,479,000	283,130,000
Total Liabilities and Equity	$1,604,062,000	$1,731,557,000	$607,023,000	$571,643,000

STATEMENTS OF EARNINGS

	Montgomery Ward & Co., Incorporated and Consolidated Subsidiaries		Container Corporation of America and Consolidated Subsidiaries	
	52-Week Period Ended February 2, 1972	53-Week Period Ended February 3, 1971	Fiscal Year Ended January 31, 1972	Fiscal Year Ended January 31, 1971
Net Sales	$2,376,993,000	$2,226,893,000	$558,783,000	$526,601,000
Costs and Expenses:				
Costs of products and merchandise sold	$1,670,164,000	$1,550,047,000	$457,227,000	$417,286,000
Operating, selling, administrative and research expenses	575,886,000	537,126,000	51,103,000	49,765,000
Interest expense	53,973,000	65,400,000	9,451,000	5,465,000
Total costs and expenses	$2,300,023,000	$2,152,573,000	$517,781,000	$472,516,000
Earnings before Taxes on Income	$ 76,970,000	$ 74,320,000	$ 41,002,000	$ 54,085,000
Provision for Taxes on Income	33,958,000	35,249,000	16,837,000	23,915,000
Net Operating Earnings before Parent Company Interest Charges	$ 43,012,000	$ 39,071,000	$ 24,165,000	$ 30,170,000
Interest Expenses Allocated from Parent Company, less applicable taxes on income	6,148,000	4,469,000	4,557,000	4,469,000
Net Earnings	$ 36,864,000	$ 34,602,000	$ 19,608,000	$ 25,701,000
Note: Depreciation, amortization and depletion included in costs and expenses	$ 29,677,000	$ 26,528,000	$ 30,189,000	$ 24,009,000

MARCOR INC. TEN-YEAR STATISTICAL SUMMARY ($000 omitted)		1971	1970
Operations	Net sales	$ 2,998,577	$ 2,804,856
	Net earnings*	57,512	59,637
	Taxes on income (including all subsidiaries)*	41,774	50,260
	Dividends*	34,150	31,788
	Additions to properties and equipment	173,386	159,771
	Depreciation and amortization	63,747	54,118
Financial Position	Working capital (after intercompany adjustments)		
	Parent and consolidated subsidiaries	$ 407,126	$ 690,973
	Credit subsidiary	544,036	184,448
	Accounts receivable (after intercompany adjustments)		
	Parent and consolidated subsidiaries	266,851	311,104
	Credit subsidiary	890,043	709,954
	Inventories	629,904	598,520
	Net investment in properties and equipment	937,180	831,653
	Long-term debt—		
	Parent and consolidated subsidiaries		
	Senior indebtedness	356,352	357,508
	Subordinated indebtedness	270,212	270,342
	Convertible subordinated indebtedness	100,000	—
	Credit subsidiary		
	Senior indebtedness	370,000	320,000
	Subordinated indebtedness	25,000	25,000
Stockholders' Interest	Stockholders' equity*	$ 920,688	$ 896,015
	Investment per common share (book value of shares outstanding at end of year)**	23.38	23.00
	Earnings per common share and common equivalent share**	1.64	1.77
	Earnings per common share assuming full dilution**	1.42	1.50
	Shares outstanding—		
	Preferred (pro forma prior to 1968)	6,159,323	6,466,452
	Common**	27,399,003	26,161,154
	Number of stockholders	77,037	80,585

*Amounts prior to November 1, 1968 have been reduced by the portions applicable to Container Corporation shares exchanged for debentures at that date.

**Adjusted for two-for-one stock split June 9, 1970.

1969	1968	1967	1966	1965	1964	1963	1962
$ 2,715,150	$ 2,500,705	$ 2,352,293	$ 2,354,488	$ 2,154,049	$ 2,087,966	$ 1,856,926	$ 1,768,233
66,950	53,810	37,443	36,699	40,050	35,501	32,062	31,417
58,417	49,920	27,582	26,527	30,685	27,982	28,644	31,870
25,701	25,265	22,131	21,803	21,215	20,171	19,907	19,325
136,328	99,722	95,945	101,898	104,743	103,396	110,638	46,718
50,226	47,432	45,417	41,651	37,606	34,496	29,178	26,672
$ 481,081	$ 452,662	$ 476,937	$ 462,268	$ 479,619	$ 381,737	$ 435,145	$ 511,932
388,493	390,122	301,702	249,574	285,489	277,119	185,555	153,509
324,940	226,676	237,043	257,480	214,237	128,307	91,676	79,252
851,470	821,147	663,305	621,995	661,555	624,746	515,708	414,882
530,819	499,448	447,955	457,120	445,173	390,917	364,683	318,908
750,355	706,479	602,274	580,456	523,434	461,799	400,426	324,172
382,038	368,734	294,898	270,082	259,215	113,631	91,139	83,176
270,472	274,181	4,950	—	—	—	—	—
—	—	—	—	—	—	—	—
248,750	235,000	175,000	125,000	125,000	125,000	75,000	75,000
25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
$ 859,347	$ 817,615	$ 791,675	$ 777,544	$ 762,851	$ 742,972	$ 725,355	$ 715,241
22.07	20.62	19.71	19.09	18.52	17.81	17.35	17.11
2.09	1.57	.93	.90	1.02	.84	.70	.68
1.72	1.36	.93	.90	1.01	.84	.70	.68
6,558,072	6,612,352	6,566,049	6,597,704	6,598,680	6,552,414	6,428,648	6,340,364
25,502,528	25,226,784	25,173,114	25,173,114	25,162,844	25,157,624	25,138,304	25,131,542
80,862	88,248	104,661	104,456	102,902	108,079	113,099	122,388

MARCOR INC.

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President and Chief Executive Officer

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Container Corporation

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Assistant General Counsel and Assistant Secretary
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Assistant Secretary
RICHARD W. CARPENTER

Marcor Stockholder Meeting

The Annual Meeting of Marcor stockholders will be held at 10 a.m. on Tuesday, May 23, 1972 at 619 West Chicago Avenue, Chicago, Illinois. Formal notice of the meeting, a proxy statement and proxy, were mailed to all stockholders of record April 17, 1972 with a copy of this Annual Report.

Corporate Offices	Marcor Inc., 619 West Chicago Ave., Chicago, Ill. 60607. Tel.(312) 467-8800 Marcor Inc., Edgemart Bldg., 4 Denny Road, Wilmington, Del. 19809. Tel. (302) 762-5256 Montgomery Ward & Co., Incorporated, 619 West Chicago Ave., Chicago, Ill. 60607. Tel. (312) 467-2000 Container Corporation of America, One First National Plaza, Chicago, Ill. 60670. Tel. (312) 786-5500
Common Stock	TRANSFER AGENTS: Morgan Guaranty Trust Company of New York, New York, N.Y. The Northern Trust Company, Chicago, Ill. REGISTRARS: Bankers Trust Company, New York, N.Y. • The First National Bank of Chicago, Chicago, Ill.
Preferred Stock	TRANSFER AGENTS: First National City Bank, New York, N.Y. • Harris Trust & Savings Bank, Chicago, Ill. REGISTRARS: Chemical Bank New York Trust Co., New York, N.Y. Continental Illinois National Bank & Trust Company of Chicago, Chicago, Ill.
6½% Subordinated Instalment Debentures	TRUSTEE: Continental Illinois National Bank & Trust Company of Chicago, Chicago, Ill.
5% Convertible Subordinated Debentures	TRUSTEE: The Northern Trust Company, Chicago, Ill.

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MARCOR 1971 ANNUAL REPORT